Susquehanna Area Regional Airport Authority (SARAA)

Issuer: Susquehanna Area Regional Airport Authority		
Affirmed w/ Outlook Revised to Stable	**Rating**	**Outlook**
Airport System Revenue Bonds	BBB	Stable

Methodology:

U.S. General Airport Revenue Bond Rating Methodology

ESG Global Rating Methodology

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Rating Summary: Affirmation of the BBB rating and revision of the outlook to Stable, from Negative, reflect the strength of recovery in airport activity at SARAA relative to the overall U.S. air market as well as the availability of substantial federal assistance to supplement both operations and debt service coverage as recovery progresses over the next several years. The revised outlook additionally reflects the continued provision of service at the airport by all airlines operating here prior to the pandemic as well as the restoration of all preexisting routes.

The Susquehanna Area Regional Airport Authority (SARAA or the Authority) Airport System Revenue Bonds are secured by a net revenue pledge of the Airport System. SARAA owns and operates Harrisburg International Airport (MDT or "the Airport") as well as the Capital City Airport, Franklin County Regional Airport, and Gettysburg Regional Airport. MDT is the largest of the four airports controlled by SARAA and is the only one that provides regular commercial airline service. As such, MDT accounts for the majority of SARAA's enplanement activity and ~95% of the Authority's annual revenues.

MDT is a 12-gate small hub airport serving a primary service area of approximately 2.0 million people in and around the Harrisburg-Carlisle MSA in central Pennsylvania. The airport faces a high level of competition from large airports serving nearby Philadelphia and Baltimore, and experienced slower passenger growth over the last several decades than the U.S. air market overall, but strong growth in the two years preceding onset of the pandemic pushed enplanements in 2019 to a record high. The primary mainline carriers of the Airport are American Airlines, Delta Air Lines, and United Airlines. Allegiant Air and Frontier Airlines additionally serve MDT with a focus on leisure travel.

Sharp pandemic-related passenger declines commencing in March 2020 saw passenger activity bottoming out down 96% in April 2020 relative to the same month in the prior year. Passenger activity has improved gradually and was down 15.2% YOY in August 2021 from the same month in 2019, which is better than the overall U.S. air market which was down 22.8% YOY over the same period according to Transportation Safety Administration (TSA) security checkpoint data.

Financial operations have historically been pressured by high debt levels associated with an extensive $244 million capital program culminating with the completion of a new terminal and multi-modal transportation facility (parking garage) at MDT in 2004, among other significant improvements. Completion of key improvements in 2004 was followed by an extended period of weaker than expected enplanement activity. Passenger activity failed to surpass the 2004 high water mark until 2019. As of FYE 2020, SARAA has $133.5 million in airport revenue bonds outstanding. Debt service requirements are level at $11.1 million annually through 2034 descending modestly to $9.3 million by final maturity in 2038. With debt at $182 per enplanement and annual debt service equivalent to $10.50 per enplaned passenger in 2019, SARAA's level of leverage is exceptionally high for a small hub airport. Reduced passenger activity per the pandemic pushed 2020 debt per enplanement to $420 and annual debt service per enplaned passenger to $15.86.

The impact of reduced passenger activity in FY 2020 was eased per the application of $4.4 million in CARES Act funds toward debt service. Debt service coverage as calculated per the requirements of the Indenture declined from 1.74x in 2019 to 1.43x in 2020. This calculation incorporates the coverage account balance (which can total up to a maximum of 25% of Senior Debt Service) as part of the numerator and accounts for PFC revenues and CARES Act funds used for debt service as offsets to debt service in the denominator. Coverage in both years exceeded the 1.25x rate covenant. Coverage from current revenues only, calculated as airport system net revenues plus PFC revenues and CARES Act funds used for debt service, divided by annual debt service, was 1.35x in 2019 and 1.08x in 2020. Both calculations are as presented in the Authority's FY 2020 audited financial statements.

The Authority was awarded a total of $22.0 million in federal pandemic relief including $10.0 million from CARES, $4.1 million from CRSAA, and $8.0 million from ARP. In FY 2020, the Authority applied $4.4 million of such funds toward debt service. For FY 2021, the Authority anticipates directing $2.7 million toward debt service, $1.0 million toward local match capital reimbursements, and $159,853 toward concession relief. For FY 2022, the Authority tentatively plans to direct $1.6 million toward reducing airline rates and charges and $639,411 toward concession relief, with the remaining balance of approximately $6.4 million to be applied in future years. Unrestricted cash and investments of $13.1 million as of August 31, 2021 provide a strong liquidity cushion equivalent to 278 days cash based on budgeted operating expenditures for the fiscal year ending December 31, 2021.

The Authority had operated under a hybrid cost recovery airline agreement, which had set forth compensatory rate-setting for the terminal and a residual regime for the airfield. The agreement expired on December 31, 2019 and signatory airlines continue to operate under its provisions. KBRA views the expired agreement as a vulnerability in current environment as it increases exposure to service reduction and withdrawal from operation at the airport. Since onset of the pandemic however no airlines have withdrawn from the airport, all routes have been restored, and enplanement activity has recovered somewhat faster than the overall U.S. air market. Management indicates that a new Airline Agreement has been negotiated but not finalized, with a target effective date of January 1, 2022. Changes relative to the prior Airline Agreement are anticipated to be modest.

The Stable outlook reflects the strong recovery to date in passenger activity as well as the availability of substantial federal assistance and satisfactory unrestricted airport liquidity. The outlook additionally reflects the expectation that the Authority will apply remaining federal funds and continue to adjust rates and charges as needed to meet all financial obligations, including rate covenants, as recovery in airport activity progresses.

Key Credit Considerations

The rating was affirmed and the outlook revised to stable because of the following key credit considerations:

Credit Positives

- Experienced management team with demonstrated ability to maintain balanced financial operations.
- Stable and diversified local economy anchored by the state government.
- Diverse carrier mix with stable O&D base prior to the pandemic.
- Strong liquidity levels.

Credit Challenges

- Very high debt levels.
- Significant geographic competition due to proximity to major commercial airports.
- Unprecedented decline in passenger traffic related to the pandemic pressures operations.
- Vulnerability to airline decisions which may impact airport operations.

Rating Sensitivities

▪ Continued recovery in enplanements to pre-pandemic levels, supported by legacy carriers fully restoring route frequencies and aircraft gauge to hubs and other business travel markets served from MDT. ▪ The Authority's ability to sustain or increase leisure demand, and related passenger traffic, stimulated by LCC and ULCC entrants. ▪ Significant commercial and industrial development within the Airport's primary service area leading to a higher, base level of demand for air service.	+
▪ Withdrawal of a legacy carrier at MDT which results in a permanent loss of enplanements. ▪ A protracted interruption to the current recovery in passenger traffic driven by unforeseen pandemic-related developments, including the emergence of additional virus variants. ▪ Trend of weakened liquidity levels and/or additional indebtedness without commensurate growth in sources of repayment.	-

Key Ratios			
FYE December 31 (dollars thousands)	2018	2019	2020
Coverage			
Revenue Available for Debt Service	$ 13,314	$ 13,954	$ 7,204
Senior Debt Service	$ 11,124	$ 11,117	$ 11,120
Less: PFC Revenue Applied to DS	$ (2,658)	$ (3,095)	$ (1,638)
Less: Application of CARES Act Funds	$ -	$ -	$ (4,444)
Net Senior Debt Service	$ 8,466	$ 8,022	$ 5,037
Senior DSCR	**1.57x**	**1.74x**	**1.43x**
Airport Activity			
Top Carrrier Market Share			
American			47.0%
Delta			17.2%
United			13.3%
Allegiant			19.3%
Frontier			3.2%
Enplanements	652,301	761,842	317,660
YOY Chg.	*8.6%*	*16.8%*	*-58.3%*

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

RD 1: Management

The Authority's management team has responded to challenges while demonstrating an ability to manage through past and current capital improvement programs. Members of the executive team are experienced and have long tenures in key areas at the Authority. The team employs a forward-looking approach and has good relationships with its signatory airlines, though KBRA notes that the airline use and lease agreement (AULA) expired on December 31, 2019, with signatory airlines continuing to operate under its provisions.

A more detailed review this rating determinant can be found in the report dated October 14, 2020.

RD 2: Economics/Demographics of the Service Area

Harrisburg International Airport is situated on an 800-acre site in Lower Swatara Township, PA, approximately 12 miles southeast of downtown Harrisburg, PA, which is the State Capital. The airport's primary air service catchment area is comprised by of eight counties in Pennsylvania with a combined population of 2.0 million in 2020. The primary service area is centered around the Harrisburg-Carlisle, PA metropolitan statistical area (MSA). The Airport's secondary air trade area is comprised by an additional 1.4 million people across 15 additional counties, all within a two-hour drive of the airport. The combined air trade area makes up approximately a quarter of Pennsylvania's population.

A more detailed review this rating determinant can be found in the report dated October 14, 2020.

RD 3: Airport Utilization

Harrisburg International Airport's utilization profile was stable in the two decades preceding onset of the COVID-19 pandemic with a trend of essentially level enplanements. Airport activity experienced stronger growth in 2018 and 2019 resulting in record high airport activity in the year preceding the pandemic. The Airport, like the overall U.S. air market has been significantly impacted by the COVID-19 pandemic since March 2020. Airport enplanements declined 58.5% YoY in 2020, a decline somewhat smaller than the 60.6% YoY decline for the U.S. air market. Authority enplanements for August 2021 were 15.2% below the August 2019 level (same month pre-pandemic) versus U.S. enplanements which were down 22.8% over the same period based on Transportation Safety Administration security checkpoint data. All airlines serving the Airport prior to the pandemic continue to operate and all routes existing prior to the pandemic have now been restored, though flight frequencies and aircraft gauge remain below 2019 levels. The restoration of service has been lead by affiliate airlines with mainline airlines anticipated to restore a greater portion of service through the first half of 2022 based on forward airline schedules. While pandemic related challenges continue to cloud the outlook for further recovery in the local and U.S. air markets, KBRA views the continued operation of all airline partners and restoration of all routes at the Airport this year, even in the absence of an airline use agreement, as evidencing the commitment of airlines to continue to provide service at the Airport.

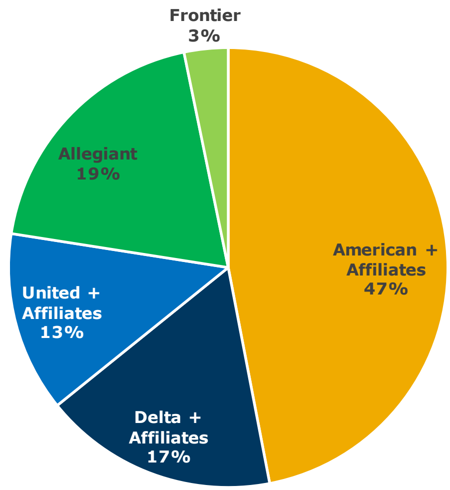
Favorable Carrier Mix

Carrier concentration is moderate with American, the dominant airline, and its affiliates accounting for 47.0% of enplanement activity in 2020, up from 41.5% in 2019. Allegiant's market share also increased in 2020 to 19.3% from 14.7%.

Figure 1

Carrier Market Share by Enplanned Passengers in FY 2020

(FYE December 31)



Source: Monthly SARAA Airport Activity Reports

Enplanement Trends Prior to COVID-19

Enplanement activity growth at the Airport lagged the overall U.S. air market over both the last five year and 10 year periods through 2019, prior to the pandemic. Recovery was strong however following the 2007-08 financial crisis with flights surpassing their 2007 high in 2010. The U.S. air market in contrast did not recover to its 2007 high until 2014. Enplanement activity experienced extremely strong growth increasing 8.8% in 2018 and 17.6% in 2019 with growth in the later year attributable primarily to American's increased capacity to Charlotte, Chicago, and Philadelphia, as well as the commencement of daily service to Dallas. Allegiant also contributed to growth with increased capacity to Orlando-Sanford, Punta Gorda, and St. Petersburg/Clearwater as well as seasonal flights to Sarasota and Nashville.

Authority enplanements declined 58.5% YoY in 2020, a decline somewhat smaller than the 60.6% decline for the overall U.S. air market.

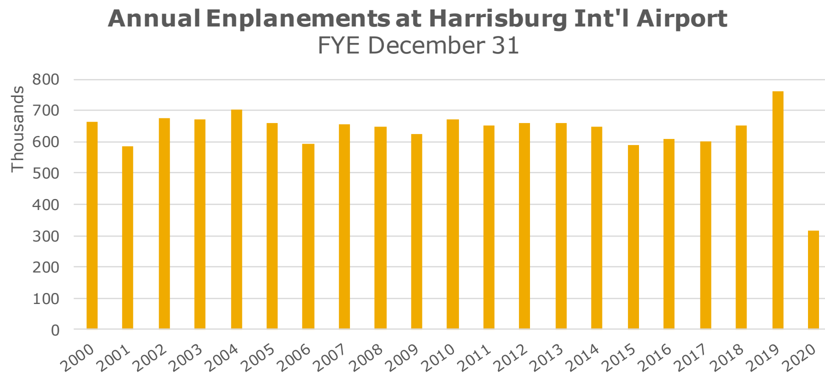
Figure 2

Annual Enplanement Activity and Available Seats vs. U.S. Air Market (in thousands)

Calendar Year	Enplanements				Available Seats			
	Harrisburg Int'l Airport	Δ YOY	U.S. Air Market	Δ YOY	Harrisburg Int'l Airport	Δ YOY	U.S. Air Market	Δ YOY
2000	521		694,595		930		1,023,129	
2001	473	-9.2%	645,601	-7.1%	848	-8.8%	978,400	-4.4%
2002	540	14.1%	634,524	-1.7%	867	2.1%	948,506	-3.1%
2003	656	21.5%	666,908	5.1%	1,026	18.5%	969,612	2.2%
2004	696	6.1%	721,700	8.2%	1,079	5.1%	1,021,025	5.3%
2005	654	-6.1%	751,678	4.2%	997	-7.6%	1,033,965	1.3%
2006	585	-10.5%	754,131	0.3%	874	-12.3%	1,007,819	-2.5%
2007	651	11.3%	778,620	3.2%	867	-0.9%	1,030,395	2.2%
2008	644	-1.0%	750,176	-3.7%	859	-0.9%	999,956	-3.0%
2009	624	-3.1%	710,625	-5.3%	836	-2.7%	936,177	-6.4%
2010	673	7.8%	726,360	2.2%	873	4.4%	931,895	-0.5%
2011	654	-2.9%	739,442	1.8%	887	1.6%	940,693	0.9%
2012	661	1.1%	744,310	0.7%	866	-2.3%	935,357	-0.6%
2013	665	0.7%	751,063	0.9%	843	-2.6%	941,403	0.6%
2014	649	-2.4%	772,052	2.8%	817	-3.2%	949,494	0.9%
2015	594	-8.4%	809,418	4.8%	747	-8.5%	986,584	3.9%
2016	599	0.8%	838,195	3.6%	766	2.5%	1,031,515	4.6%
2017	588	-1.8%	865,738	3.3%	773	1.0%	1,064,227	3.2%
2018	640	8.8%	907,371	4.8%	821	6.2%	1,110,950	4.4%
2019	753	17.6%	942,964	3.9%	900	9.6%	1,146,238	3.2%
2020	312	-58.5%	371,082	-60.6%	543	-39.6%	650,094	-43.3%
5-Yr CAGR through 2019	3.0%		4.1%		2.0%		3.8%	
10-Yr CAGR through 2019	1.9%		2.9%		0.7%		2.0%	

Source: U.S. Bureau of Transportation Statistics T-100 Database

Figure 3



Source: SARAA

COVID-19 Impact on Enplanement Activity

The onset of the COVID-19 crisis in early 2020 resulted in a sharp reduction in enplanement activity. Monthly enplanements bottomed out at 2,500 in April, down 96.1% YOY. Enplanements have gradually improved to 51,600 as of August 2021, a level 15.2% below that recorded in August 2019. Enplanements for the overall U.S. air market were in contrast down by a somewhat larger 22.8% between the two periods based on Transportation Safety Administration security checkpoint data.

Figure 4

Monthly Airport Enplanement Activity

	2019	Δ YOY	2020	Chg from Same Month 2019	2021
January	50,411	16.9%	58,925	-61.6%	19,369
February	50,386	20.1%	60,497	-58.8%	20,762
March	62,232	-49.4%	31,463	-47.1%	32,941
April	64,133	-96.1%	2,502	-43.6%	36,143
May	68,536	-87.6%	8,499	-35.8%	43,970
June	69,539	-76.2%	16,547	-22.2%	54,134
July	67,793	-64.3%	24,222	-14.4%	58,039
August	60,927	-63.1%	22,489	-15.2%	51,636
September	62,794	-63.2%	23,083		
October	71,212	-62.5%	26,700		
November	64,823	-64.7%	22,890		
December	62,876	-68.4%	19,843		

Source: SARAA

RD 4: Airport Debt/Capital Needs

Leverage ratios for the Authority remain very high for a small hub airport. While trending down, debt per enplaned passenger historically has been over $200. With record growth in enplanements in FY 2019, debt per enplaned passenger, while still elevated, declined to $182 and debt service per O&D enplanement totaled $10.53. With 2020 enplanements of 317,660 (a 58.3% decline from FY 2019), these metrics more than double for FY 2020. These metrics are significantly higher than most airports of comparable size and scope. KBRA views the Authority's high debt level as a negative factor which constrains the Airport's credit rating.

The high debt level adds significant pressure to airline operating margins at MDT and may act as a disincentive for new airline service. This situation is primarily the result of the timing of the Airport's 2002 capital improvement program (CIP), which overlapped with a period of significant stress in the airline industry. After a series of airline consolidations, bankruptcies, and strategy changes, the Airport realized enplanement levels which were lower than anticipated and significantly higher than anticipated airline costs. Details of the 2002 CIP can be found in KBRA's rating report published in October 2017. A five-year history of the Airport's debt ratios is summarized below.

Figure 5

Airport Debt Ratios
FYE December 31

	2016	2017	2018	2019	2020
Enplanements	607,324	600,443	652,301	761,842	317,660
Total Debt Outstanding	$154,710,797	$149,425,355	$144,299,147	$138,997,679	$133,523,366
Debt/ Enplanement	$255	$249	$221	$182	$420
Debt Service (net of PFC and CARES)	$9,548,575	$9,865,509	$8,407,335	$8,022,450	$5,037,405
DS/Enplanement	$15.72	$16.43	$12.89	$10.53	$15.86

Source: SARAA and KBRA Calculations

A more detailed review this rating determinant can be found in the report dated October 14, 2020.

RD 5: Airport Finances

The Authority's finances are governed by the Airline Operating Agreement and Terminal Building Lease (the "Airline Agreement"). The Airline Agreement, together with the master trust indenture, which establishes the Authority's airport system revenue bonds, collectively set forth the flow of funds and the rate covenant. The Airline Agreement expired on December 31, 2019 and signatory airlines have subsequently operated under carryover provisions. A tentative updated agreement has been reached. Management hopes to finalize the agreement this year with a January 1, 2022 effective date.

The Authority's financial operations remained satisfactory in 2020, with debt service coverage supplemented by the application of CARES Act funds. The Authority's debt burden continues to trend downward from its 2005 peak and airport liquidity trended upward in the several years preceding the pandemic, with a substantial amount of federal pandemic assistance funds available to fortify operations over the next several years. In KBRA's view however the Authority's elevated costs stemming from its still high level of leverage presents a continuing vulnerability, particularly in the context of the current, pandemic-effected operating environment which may complicate a fuller recovery in airport activity over the near term.

Airline-Airport Use Agreement

The Airline Agreement employs a hybrid rate setting methodology and establishes three cost centers (terminal, airfield, and landside) to account for revenues and expenses. The use agreement sets forth a compensatory rate-setting methodology for commercial terminal rentals and apron fees, with elements of residual rate-setting for airline terminal rentals and landing fees. The landside cost center accounts largely for public and employee parking areas, circulation roadways, rental car facilities, and non-aeronautical buildings. A portion of excess revenue generated from the landside cost center is used to credit the signatory airlines' terminal rental rates. The use agreement provides for preferential leasing of airline space, though airport management retains full discretion in determining the optimal utilization of all gates. Should current rates and charges generate insufficient revenues to meet the cost center requirements or provisions set forth in the indenture, the Authority has the ability to adjust fees.

The Airline Agreement lapsed on December 31, 2019 and signatory airlines are currently operating under carryover provisions of that agreement. KBRA views the expired agreement as a vulnerability in the current environment as it increases exposure to service reduction and withdrawal from operation at the airport. However, since onset of the pandemic no airlines have withdrawn from the Airport, all routes have been restored, and enplanement activity has recovered somewhat faster than across the U.S. air market overall. Management indicates that a new Airline Agreement has been negotiated but not finalized, with a target effective date of January 1, 2022. Changes relative to the prior Airline Agreement are anticipated to be modest.

Liquidity Position

SARAA maintains a favorable liquidity position. As of August 31, 2021, available cash balances total $13.1 million or 278 days cash.

Figure 6

Liquidity Position FYE December 31 (dollars thousands)	2016	2017	2018	2019	2020	8/31/2021
M&O Reserve	$ 2,668	$ 2,869	$ 3,027	$ 3,106	$ 3,254	$ 3,260
R&R Reserve	501	501	173	243	500	501
Coverage Account	2,420	2,501	2,123	2,023	1,245	1,269
Capital Improvement Account	2,087	4,856	5,705	4,491	3,315	5,080
Revenue/Petty Cash	1,087	676	1,076	1,295	397	2,960
Total Funds Available	8,763	11,405	12,103	11,159	8,712	13,070
Annual Operating Expenses[1]	16,751	16,895	18,553	19,513	15,411	17,175
Days Cash on Hand	191	246	238	209	206	278

Source: SARAA

[1] Expenditures for FY2021 based on presently projected expenditures rather than original budgeted expenditures.

Historic Financial Performance

Total revenues increased at a 3.8% compound annual growth rate (CAGR) between 2016 and 2019, but declined $10.1 million (32.1%) YoY in 2020 to $21.4 million. The decline was primarily attributable to a $5.8 million (63.9%) decline in parking revenues and $2.2 million (47.7%) decline in vehicle rental fees and customer facility charges due to the pandemic-induced decline in airport activity.

Operating expenses increased at a 5.2% CAGR between 2016 and 2019, but declined $4.1 million (21.0%) YoY in 2020 to $15.4 million as management acted to constrain spending in the pandemic environment. Notable reductions include a $1.3 million (38.7%) reduction in spending for supplies, parts, and other to $2.1 million and a $1.0 million (49.7%) reduction in parking facility spending.

Operating margin declined from 38.6% of revenues in 2016 to 33.1% in 2019. Onset of the pandemic resulted in a further reduction in the operating margin to 26.4% in FY 2020, but the impact on debt service coverage was reduced due to the application of $4.4 million in CARES Act funds toward debt service.

Figure 7

Historical Operating Results and Debt Service Coverage
FYE December 31 (Audited) (dollars thousands)

	2016	2017	2018	2019	2020
Operating Revenues					
Facilities Revenue	$ 8,820	$ 8,768	$ 8,801	$ 8,719	$ 9,375
Parking Fees	7,561	7,528	8,058	9,150	3,302
Vehicle Rental Fees and Customer Facility Charges	4,106	4,034	4,237	4,669	2,440
Landing Fees	3,844	4,050	4,064	3,164	3,183
Apron and Gate Use Fees	1,244	1,325	1,409	1,531	1,422
Concession Fees	498	500	534	672	342
Fuel Flowage and Other Commissions	452	433	464	495	292
Other Income	777	657	676	760	597
Total Operating Revenues	27,300	27,294	28,244	29,160	20,953
Additions:					
Revenue Sharing to Airlines	666	515	1,115	1,691	29
Interest Income	172	228	406	611	389
Total Revenues	28,139	28,037	29,765	31,462	21,370
Management and Operating Expenses					
Salaries, Wages, Payroll Taxes and Benefits	6,954	7,332	7,874	8,433	8,181
Professional and Consulting Fees	520	533	486	624	439
Marketing	549	453	581	561	329
Insurance	582	569	528	573	637
Utilities	1,504	1,494	1,418	1,458	1,167
Parking Facility	2,417	2,317	2,063	2,054	1,032
Repairs and Maintenance	1,761	1,508	2,121	2,389	1,527
Supplies, Parts, and Other	2,464	2,690	3,482	3,421	2,098
Total Operating Expenses Before Depreciation	16,751	16,895	18,553	19,513	15,411
Airport System Net Revenues	11,387	11,143	11,212	11,949	5,960
Add: Coverage Account Balances[1]	1,299	2,466	2,102	2,006	1,245
Net Revenues Plus Coverage Account Balances	12,686	13,609	13,314	13,954	7,204
Annual Senior Bonds Debt Service	7,606	12,253	11,124	11,117	11,120
Less: PFC Revenues	(2,409)	(2,388)	(2,658)	(3,095)	(1,638)
Less: Escrow Earnings	-	-	(59)	-	-
Less: CARES Act Funds Used for Debt Service	-	-	-	-	(4,444)
Net Senior Bonds Debt Service	5,197	9,866	8,407	8,022	5,037
Senior Bonds Debt Service Coverage[2]	2.44x	1.38x	1.58x	1.74x	1.43x
Adjusted Senior Bonds Debt Service Coverage[3]	1.81x	1.10x	1.25x	1.35x	1.08x
Net Senior Bonds Debt Service	5,197	9,866	8,407	8,022	5,037
Subordinate Bonds Debt Service	4,352	-	-	-	-
Annual Aggregate Net Debt Service	9,549	9,866	8,407	8,022	5,037
Aggregate Debt Service Coverage[4]	1.33x	n/a	n/a	n/a	n/a
Adjusted Aggregate Debt Service Coverage[5]	1.15x	n/a	n/a	n/a	n/a

Source: SARAA Audited Financial Statements

[1] Limited to 25% of net Senior Bond debt service.

[2] Coverage calculated as required by the Indenture, which incorporates the coverage account balance (which can total up to a maximum of 25% of Senior Debt Service) as part of the numerator and accounts for PFC revenue as an offset to debt service in the denominator. Minimum debt service coverage requirements for Bonds per the Indenture is 1.25x.

[3] Calculated as Airport System Net Revenues plus PFC Revenues plus CARES Act Funds used for debt service divided by Senior Debt Service.

[4] Coverage calculated as required by the Subordinate Indenture, which incorporates the coverage account balance (which can total up to a maximum of 25% of Senior Debt Service) as part of numerator and accounts for PFC revenue as an offset to debt service in the denominator.

[5] Calculated as the sum of Net Revenues and PFC Revenues, divided by the sum of Bonds Debt Service and Subordinated Obligations Debt Service, less Letter of Intent Grants, if any.

Application of CARES, CRSAA, and ARP Funds

The Authority was awarded a total of $22.0 million in federal pandemic relief including $10.0 million from CARES, $4.1 million from CRSAA, and $8.0 million from ARP. In FY 2020, the Authority applied $4.4 million of such funds toward debt service. For FY 2021, the Authority anticipates directing $2.7 million toward debt service, $1.0 million toward local match capital reimbursements, and $159,853 toward concession relief. For FY 2022, the Authority plans to direct $1.6 million toward reducing airline rates and charges and $639,411 toward concession relief, with the remaining balance of approximately $6.4 million to be applied in future years.

Airline Cost Per Enplanement (CPE)

Airline costs per enplaned passenger (CPE) declined from $15.16 in 2016 to $11.42 in 2019 as enplanement activity increased and non-airline revenues grew to cover an increased share of operating costs. The sharp pandemic-induced reduction in passenger activity in FY 2020 pushed CPE up to an elevated $27.53.

CPE Stress Case

KBRA's stress case assumes that September 2021 through February 2022 enplanements remain 15.2% below the 2019 same month levels, with subsequent recovery causing the shortfall to decline by one percentage point each month thereafter, resulting in enplanement recovery to the same month pre-pandemic level in June 2023. Under this scenario, we estimate that airline cost per enplanement would decline from $27 in FY 2020 to $12 in FY 2021 and receded below $10 thereafter based on continued recovery in enplanement activity and anticipated application of federal monies toward debt service.

RD 6: Legal Mechanics and Security Provisions

A summary of the Airport's System Revenue Bonds' legal mechanics and security provisions can be found in the figure below.

Figure 8

SARAA Airport System Revenue Bonds

	Revenue Pledge	Rate Covenant	Additional Bonds Test	Debt Service Reserve Fund	Flow of Funds
Senior Lien	Net Revenue of the Airport System. PFC and LOI revenues can be used to offset airport revenue bond DS but are not included within the definition of Airport System Revenues	Rate and charges set to fully cover O&M expenses and annual airport revenue bond DS, net of pledged CFC and LOI grant receipts. 1.25x of aggregated ADS. Amounts on deposit in the coverage account cannot account for greater than 25% of DSC. **KBRA views the rate covenant as adequate, but notes that the rolling coverage allowance is somewhat permissive given the size of airport operations and the ability to offset debt service with pledged PFC and LOI grants	Net revenue for any 12 consecutive months out of the past 18 consecutive months immediately preceding the date of issuance were at least equal to 110% of maximum aggregate ADS with respect to all outstanding bonds and bonds to be issued. Or Net revenue will satisfy the rate covenant after issuance of the proposed debt in each of the first three fiscal years following the date on which the project financed with additional debt is expected to be completed, or during each of the first five fiscal years following the date of issuance of such bonds, whichever is later	Funded at MADS	Closed

Source: Susquehanna Area Regional Airport Authority

A more detailed review this rating determinant can be found in the report dated October 14, 2020.

Bankruptcy Assessment

KBRA's latest bankruptcy assessment can be found in the report dated October 14, 2020.

ESG Management

Environmental Factors

Harrisburg International Airport and its single 10,000 foot runway are situated along the Susquehanna River which is subject to shore erosion and periodic flooding. It has historically been protected against these hazards by a levee built by the U.S. Army Corps of Engineers in 1958. The Authority identified the levee as facing increasing erosion issues caused by age, vegetation growth, and other factors and developed a plan to rehabilitate and repair the levee in 2004. Repairs were not deemed critical at that time. By 2018 the urgency of the project had grown and the Authority was successful in its application for a Federal Aviation Authority for a $20.2 million grant to support the project. Project plans were updated and the rehabilitation was completed between November 2019 and June 2020, with the fortified levee expected to protect the airport for another 50 years.

Social Factors

The Authority has taken a range of steps to keep passengers safe during the pandemic and to comply with the federal mask mandate that requires individuals across all transportation networks throughout the United States, including at airports and onboard commercial aircraft, to continue to wear face coverings through January 18, 2022. To ensure passenger safety the Authority has placed hand sanitizer stations and surface cleaning wipes throughout the terminal building, installed polycarbonate barriers in all high traffic public interface areas, enhanced cleaning and disinfection efforts, and installed social distancing markers throughout the airport to remind travels to maintain a safe distance.

Governance Factors

The Authority's 2016 Master Plan identifies environmental and social considerations as pillars of the plan's sustainability framework. The plan for future development at the Authority includes projects to clean up existing environmental detriments and considers both individual and cumulative environmental impacts. The master plan advisory committee represented a wide range of stakeholders at the Authority and affected communities, and provided input at regular intervals in the master plan development process.