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Ratings

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# Tulsa Airports Improvement Trust, Oklahoma
# Tulsa International Airport; Airport

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## Table Of Contents

# Tulsa Airports Improvement Trust, Oklahoma Tulsa International Airport; Airport

| Credit Profile | | |
|---|---|---|
| US$19.74 mil gen arpt rev bnds (Tulsa Intl Arpt) ser 2018A due 06/01/2048 | | |
| *Long Term Rating* | A-/Positive | New |
| **Tulsa Arpts Imp Trust, Oklahoma** | | |
| Tulsa Intl Arpt, Oklahoma | | |
| Trustees of the Tulsa Airports Improvement Trust (Tulsa International Airport) arpt (BAM) | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| Trustees of the Tulsa Airports Improvement Trust (Tulsa International Airport) arpt (BAM) | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| Trustees of the Tulsa Airports Improvement Trust (Tulsa International Airport) arpt (BAM) | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| Trustees of The Tulsa Arpts Imp Trust (Tulsa Intl Arpt) (BAM) | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt (BAM) | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| **Trustees of The Tulsa Arpts Imp Trust (Tulsa Intl Arpt)** | | |
| *Unenhanced Rating* | A-(SPUR)/Positive | Upgraded |
| *Long Term Rating* | A-/Positive | Upgraded |

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings has raised its rating on Tulsa Airports Improvement Trust (TAIT), Okla.'s debt outstanding issued for Tulsa International Airport (TUL) to 'A-' from 'BBB+'. At the same time, S&P Global Ratings has assigned its 'A-' rating to TAIT's proposed $19.7 million series 2018A general airport revenue bonds issued for TUL. The outlook is positive.

The upgrade reflects the application of S&P Global Ratings updated rating criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," published March 12, 2018.

The higher ratings on TAIT also reflects our opinion of the airport's strong enterprise risk and financial risk profiles. The strong enterprise risk profile reflects TUL's strong origin and destination (O&D) nature with a relatively diverse and stable air carrier service offset by some competition from nearby airports. Historically weaker debt service coverage (DSC) tempers the strong financial risk profile, although it also reflects a proposed use and lease agreements beginning July 1,, 2019, which will phase out profit sharing with air carriers over four years which would lead to coverage we view as strong.

The strong enterprise risk profile reflects our view of TUL's:

- Adequate market position due to the small hub's enplanement base that is primarily O&D traffic, although the airport faces competition from nearby airports;
- Extremely strong economic fundamentals which includes favorable GDP per capita, average unemployment level, and population growth rate, serving a meaningful service area population;
- Low industry risk relative to that of other industries and sectors; and
- Strong management and governance, with a management team that we believe has a strong track record of operating its major lines of business and managing risk.

The strong financial risk profile reflects our view of TUL's:

- Debt service coverage (DSC; S&P Global Ratings-calculated) that we expect will increase to levels we consider strong, including the effects from additional borrowing
- Very strong debt and liabilities capacity that we expect will continue, including the effects of the 2018 bonds; and
- Strong liquidity and financial flexibility, reflecting the airport's plan to improve its liquidity position of 271 days' cash on hand.

Bond proceeds will fund updates to the terminal building located at Tulsa International Airport situated in Tulsa County, Okla.; projects include utility work, boiler replacement, roof replacement, relocation of airline ticket counters, asbestos abatement activities and related capital improvements. In addition, bond proceeds will fund capitalized interest, costs of issuance, and fund the bond reserve requirements.

TUL's net revenues, which include customer facility charges (CFCs) but exclude passenger facility charges (PFCs), secure the bonds. The rate covenant requires that rates and charges such that gross revenues plus dedicated revenues are sufficient to pay 1.25x annual debt service, estimated and budgeted operating expenses, and an amount equal to the total deficiencies in any fund or account under the indenture. Gross revenues can include unlimited carryover money from the airport improvement fund (AIF) and CFCs but do not include money from dedicated revenues. Bondholders also benefit from a bond reserve fund that is cash-financed to the lesser of 10% of the stated principal amount of the bonds, the maximum annual debt service, or 125% of the average annual debt service. TUL may issue additional bonds if historical or projected net revenues, including previous revenues in the AIF and dedicated revenues, equals 1.25x annual debt service on existing and proposed bonds. The debt service reserve funds are all fully cash-funded. We view the bond provisions to be credit neutral.

## Outlook

The positive outlook reflects our expectation that the airport's enplanements will remain generally stable and that DSC will be near unaudited 2018 levels that we view as strong.

### Upside scenario

We could raise the rating in the two-year outlook period if revenues from the revised airline use and lease agreement produce DSC (S&P Global Ratings-calculated) at levels that are near strong and are sustainable.

### Downside scenario

We could revise the outlook to stable if TUL's DSC (S&P Global Ratings-calculated) fluctuates at levels we consider adequate or if the airport experiences declining activity levels.

## Enterprise Risk

Our assessment of TAIT's enterprise risk profile as strong reflects the airport's extremely strong economic fundamentals, low industry risk, adequate market position, and strong management and governance.

### Economic fundamentals

In our view, TUL's primary service area maintains extremely strong economic fundamentals. This is exemplified by the region's GDP per capita of approximately $60,191, its 2017 unemployment rate of 4.5% compared with a national rate of 4.4%, and a projected three-year growth rate for its population (approximately one million) that, at 2.1%, is in line with the U.S. rate of 2.4%.

Located in northeastern Oklahoma, Tulsa is the second largest city in the state. The airport's large originating passenger base depends on the strength of the Tulsa metropolitan statistical area's economy. In fiscal 2018, originating passengers were estimated to account for more than 97% of all enplaned passengers.

### Market position

We consider TUL's overall market position as adequate. The airport benefits from a competitive position within its immediate service region, which represents about 97% of the airport's total enplaned passengers. Although there are six airports within 200 miles from TUL, half are small hubs and half are non-hubs. Will Rogers World Airport, in Oklahoma City, is about 122 miles southwest of the airport and TUL's biggest competitor. The airport has what we view as relatively good frequency and competitive fares on competing routes. We believe it benefits from good carrier diversity, including service from low-cost carriers. The top two airlines, Southwest Airlines Co. and American Airlines Inc., represented 33.0% and 30.8% of total enplanements, respectively, for fiscal 2017 (year ended June 30). United Air Lines Inc. has the third-largest market share at 17.9%.

Enplanements at TUL remained mostly flat in fiscal 2017, but unaudited fiscal 2018 show growth returning. On average, enplanements had declined 2.1% from fiscal years 2009-2013 due to airline capacity reductions. More recently, Southwest completed its route realignment following the repeal of the Wright Amendment in October 2014, reducing seat capacity at TUL. Despite growing 2.2% and 2.1% in fiscal years 2014 and 2015, traffic declined 0.4% in fiscal 2016. Enplanements for fiscal year-end 2017 was 1.38 million while management expects unaudited 2018 enplanements to be 1.43 million. Given new services, year-to-date results, and expected seat capacity at the airport, enplanements are budgeted to rise to 1.5 million by fiscal 2020, which we view as reasonable. TUL's airline cost structure remains low, in our view, at about $8.30 per enplaned passenger in fiscal 2017. We expect it to remain in this range.

### Management and governance

The TAIT's managerial and governance, in our view, is strong reflective of our view TUL's strategic positioning; risk management and financial management; and organizational effectiveness

The airport's airline use and lease agreement took effect July 1, 2013. The agreement uses a hybrid rate-setting methodology--as opposed to the former fully residual rate-setting methodology. Landing fee rates are calculated residually and terminal rents under a commercial compensatory approach. However, TAIT is entering a new agreement with its signatory airlines July 1, 2019. The new agreement would transition out revenue sharing to 0% through four years. The new terms will include the airfield residual and terminal compensatory arrangement being maintained moving forward. Signatory carriers include American, Delta Air Lines Inc., Southwest, and United, along with cargo carriers FedEx Corp. and United Parcel Service Inc.

TAITs five-year capital program, that management reviews and updates annually, is manageable in our view. The 2019-2023 plan totals $57 million. TUL has estimated approximately $32.6 million in airfield project costs primarily to improve runways. Management indicated that no projects depend on additional debt or large drawdowns of cash, so liquidity is not likely to weaken as the airport proceeds with its capital plan.

## Financial Risk

Our assessment of TAIT's financial risk profile as strong reflects the trust's strong financial performance, very strong debt and liabilities capacity, and strong liquidity and financial flexibility. In addition to TUL's historical performance, our financial profile risk assessment considered pro forma figures, which include the impact of the 2018A bonds. The pro forma figures reflect our expectations of an increased debt burden, annual debt service obligations, no expected draws on available liquidity, impacts of the proposed airline use and lease agreement, and steady or modest increases in demand and related net revenue growth. Our financial profile assessment also considers the trust's financial policies, which we consider credit neutral.

### Financial performance

The strong financial performance assessment reflects our expectation that DSC, as per our pro forma calculations, will be grow above 1.25x. DSC (S&P Global Ratings-calculated), which excludes transfer of funds from the airport improvement fund, but includes dedicated PFCs and CFCs, was what we consider adequate at just 1.14x for fiscal 2017. However, unaudited fiscal 2018 and forecasted figures show coverage growing to above 1.25x, in part from increased enplanements and the change in the airline use and lease agreement. Pursuant to the indenture, DSC, which includes PFCs, CFCs, and account transfers, was 1.58x in fiscal 2017.

### Debt and liabilities

We assess TAIT's debt and liabilities capacity as very strong based on our expectation that debt to net revenues will likely remain under 10x when including all pledged revenue sources. As of June 2018, there is approximately $158.8 million in principal debt outstanding, not including the 2018 bonds. We expect debt per enplanement to increase to about $140, which we consider moderately high for an airport its size. There are no additional debt plans. The TAIT's planned funding sources for the other projects in the capital program include pay#?as#?you#?go PFC revenues, federal and state grants, trust funds, and other future funding.

### Liquidity and financial flexibility

We assess TAIT's liquidity and financial flexibility as strong. TUL's liquidity position has been consistently stable historically. Audited unrestricted cash and investments was $16.6 million in fiscal 2017, and provided 271 days' cash on hand. We expect the airport's liquidity position to increase, but in the near term stay within levels we still consider strong given no large capital plans requiring cash reserves and increased cash flow from the new use and lease agreement. In addition, we expect available liquidity-to-debt will remain below 20%.