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Summary:

Tulsa International Airport, Oklahoma Tulsa Airports Improvement Trust; Airport

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Credit Profile

Tulsa Arpts Imp Trust, Oklahoma

Tulsa Intl Arpt, Oklahoma

Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt

Long Term Rating

A/Stable

Upgraded

Rating Action

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'A' from 'A-' on Tulsa Airports Improvement Trust (TAIT), Okla.'s general airport revenue bonds (GARBs) issued for Tulsa International Airport (TUL, or the airport). The outlook is stable.

The upgrade reflects our view of TUL's strong passenger recovery trends and demonstrated financial resiliency and rate-setting flexibility during a period of materially depressed activity. From March 2022 through May 2022, monthly enplanements were approximately 93% to 96% of 2019 pre-pandemic levels. We believe the traffic levels are sustainable and support an improved market position assessment and strong enterprise risk profile. Furthermore, we believe nearly recovered enplanement levels will support financial metrics consistent with a strong financial risk profile.

TUL's net revenue, which includes customer facility charges, secures the bonds, together with dedicated revenue consisting of passenger facility charges (PFC). Bondholders also benefit from a common bond reserve fund that is cash-financed to the least of 10% of the stated principal amount of the bonds, maximum annual debt service, or 125% of average annual debt service.

As of June 30, 2022, the airport had approximately \$147.8 million in debt outstanding, including \$530,000 in direct placement debt outstanding with a final maturity date of Jan. 1, 2027.

Credit overview

The rating action reflects our opinion of TUL's strong enterprise and financial risk profiles and is based on the airport's robust enplanement recovery to near pre-pandemic levels that we believe will support financial metrics consistent with a strong financial risk profile, and an improved rate-setting environment and overall market position.

TUL entered the pandemic operationally and financially strong, with 1.5 million enplanements in fiscal 2019, historically very strong debt capacity, strong debt service coverage (DSC; S&P Global Ratings-calculated), and strong overall liquidity position. However, enplanements declined 27.6% to 1.09 million in the fiscal year ended June 30, 2020, and an estimated 45.0% to 826,170 in fiscal 2021 due to the COVID-19 pandemic. Passenger traffic recovery at TUL has been strong, with fiscal 2022 year-to-date enplanements through May 2022 at roughly 89% of fiscal 2019

levels for the same period.

The enterprise risk profile also considers TUL's predominantly origin-and-destination nature (98.7% of enplanements in fiscal 2021) with a relatively diverse and stable air carrier service, offset by some competition from nearby airports. The top two airlines, American Airlines Inc. and Southwest Airlines Co., represented 36% and 32% of total enplanements, respectively, for fiscal 2021. United Air Lines Inc. has the third-largest market share at 15%. Although TUL--a small hub airport--benefits from a good competitive position within its immediate service region, there are six airports within 200 miles; half are small hubs and half are non-hubs. TUL's biggest competitor, Will Rogers World Airport (which enplaned 1.17 million passengers in fiscal year June 2021), in Oklahoma City, is about 122 miles southwest of the airport.

Our opinion of TUL's overall financial risk profile is unchanged at strong, as we expect its revenue performance will continue to recover and that the airport's DSC for fiscal year June 30, 2022, will return to levels we consider strong (1.25x to 3.0x; S&P Global Ratings-calculated). We evaluated audited results for fiscal 2021, budget-to-actual results for the nine months ended April 2022, and the fiscal 2023 budget which we consider reasonable, assuming enplanements recover to 99% of 2019 levels in fiscal 2023. In fiscal 2020 and 2021, TUL was able to improve its liquidity position with the infusion of federal relief funds and maintain very strong debt to net revenue (5x to 10x) and sufficient DSC (S&P Global Ratings-calculated) at 1.02x and 1.11x, respectively. Although DSC fell to levels we consider vulnerable (1.0x to 1.1x) we expect fiscal 2022 DSC will return to strong levels (above 1.25x) based on forecasts which project revenues will be \$3.7 million over budget compared to year-to-date actual revenues through April 2022 exceeding budget by \$5 million.

Overall, we view weaker coverage in fiscal 2020 and 2021 as transitory and not indicative of longer-term, steady-state financial performance, particularly given the use of federal stimulus aid as well as the retained surplus passenger facility charge revenue to offset revenue losses. While we exclude this revenue from our calculations given their nonrecurring nature, our favorable view of expected financial performance benefits further from the enhanced flexibility provided by approximately \$33.6 million in total U.S. Department of Transportation operating grants administered by the Federal Aviation Administration and awarded to TUL, which can be used to pay debt service, offset revenue losses, provide rate relief to airlines and airport concessionaires, among other eligible uses. Coverage in 2020 and 2021, as per the indenture, was 2.07x and 1.84x when including federal aid and surplus passenger facility charge revenue dedicated to debt service. TUL used the full \$15.7 million in CARES Act funds and \$5.3 million from the Coronavirus Response and Relief Supplemental Appropriations Act in fiscal years 2020 and 2021 to reimburse the airport for general operating expenses and plans to use the \$12.7 million of American Rescue Plan Act funds by the end of 2024.

Key credit strengths, in our opinion, are TUL's:

- Very strong debt capacity, reflecting our expectation that the airport's debt to net revenue will be less than 10x, and a manageable capital improvement program totaling \$101.9 million for 2023 to 2027 with no additional debt currently planned to finance;
- Very strong overall liquidity position with \$37.3 million in unrestricted cash as of April 2022, equating to more than 550 days' cash on hand and 26% of debt (S&P Global Ratings Ratings-calculated) based on the 2022 budget, that we

expect will be maintained as a result of recovering air travel demand, infusion of federal stimulus aid, and limited use of cash reserves to pay for capital improvement program project costs;

- Good air carrier diversity and healthy service area economy with 1.6% three-year average projected population growth and 3% unemployment, providing a sufficient base level of demand; and
- Strong management team with flexibility to adjust capital spending, operating expenses, and the reallocation of restricted cash reserves for paying for operations if need be.

Key credit weaknesses, in our opinion, are TUL's:

- Relatively small size with 1.5 million enplanements in fiscal 2019 and 1.2 million enplanements estimated for fiscal 2022; and
- Competition from Will Rogers World Airport and other regional airports, potentially constraining growth in TUL enplanements.

The stable outlook reflects our expectation that TUL's enplanements will be sustained or continue to improve and normalize, allowing the airport to maintain financial metrics, per our calculations, that are consistent with a strong financial risk profile.

Environmental, social, and governance

We analyzed TUL' risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance. Health and safety risks, which we consider a social risk factor, are abating as reflected in TUL's enplanement recovery but considered moderately negative in our analysis of the sector, given the shock that these types of events have on air travel and mobility behavior. All other environmental and governance credit factors are neutral in our credit rating analysis.

Stable Outlook

Upside scenario

We could raise the rating within the next two years if we believe TUL's debt to net revenue will be maintained at levels we consider extremely strong (below 5x).

Downside scenario

Although unlikely, we could lower the rating if enplanements decline materially or if we expect financial metrics, particularly DSC and debt-to-net revenues, will be sustained at weaker levels consistent with a lower rating.

Credit Opinion

S&P Global Ratings believes that currently, economic momentum will likely protect the U.S economy from recession in 2022. But, with supply-chain disruptions worsening as the weight of extremely high prices damage purchasing power and aggressive Federal Reserve policy increases borrowing costs, economic impacts are likely in 2023. Our U.S. GDP growth forecast is 2.4% for 2022 and 1.6% for 2023 (compared with 2.4% and 2.0%, respectively, in May 2022) and, while our baseline signals a low-growth recession, we believe the likelihood of a contraction or technical recession

are rising--to 40% (35%-45% band) The wider band reflects increased uncertainty over the Russia-Ukraine conflict. Supply-chain disruptions, worsened by the Russia-Ukraine conflict and the China slowdown, remain the largest stumbling block for the U.S. economy. As inflation expectations become more entrenched, extreme price pressures will likely last well into 2023. We expect the unemployment rate, at 3.6% in May and just over its pre-pandemic level, will remain near that rate until early 2023 before rising to top 4.3% by the end of 2023 and climb over 5.0% by the end of 2025 as the economy slows. The Federal Reserve is now likely to push rates from zero at the beginning of the year to 300 basis points by year-end and reach 3.50%-3.75% by mid-2023. The Fed will keep monetary policy tight until inflation decelerates and nears its target in second-quarter 2024. We expect the Fed will start to cut rates in third-quarter 2024. Our lower GDP and inflation forecasts for 2023 and 2024 reflect this more aggressive policy stance. For more information, see "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent", published June 27, 2022, on RatingsDirect.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 6, 2022)

Tulsa Arpts Imp Trust, Oklahoma

Tulsa Intl Arpt, Oklahoma

Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt (AGM)

Unenhanced Rating A(SPUR)/Stable Upgraded

Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt (BAM)

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Unenhanced Rating A(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

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