

Rating Action: Moody's upgrades Tulsa Airports Improvement Trust, OK's airport revenue bonds to A3; outlook stable

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New York, September 21, 2022 -- Moody's Investors Service has upgraded to A3 from Baa1 Tulsa Airports Improvement Trust's (OK) airport revenue bonds. The rating outlook is stable. The rating action affects about \$147 million of general airport revenue bonds outstanding.

RATINGS RATIONALE

The upgrade to A3 from Baa1 of Tulsa Airports Improvement Trust (TAIT) primarily reflects projected deleveraging over the next several years owing to a lack of debt issuance plans. Funding for capital investment over the next five years will come from operating cash flow, federal grants including funds from the Infrastructure Investment and Jobs Act, passenger facility charges, and state and local contributions.

Enplanement recovery from pandemic lows at the Tulsa International Airport (TUL) has consistently outpaced the national trend, reached 2019 levels in July and performed ahead of management's conservative expectation for the year, culminating in strong budget to actual performance in fiscal 2022. Management reasonably expects enplanements for the full fiscal 2023 will be around 2019 levels. We expect TAIT will be able to maintain debt service coverage ratios of at least 1.3x before coronavirus relief, which is on the lower end compared with peers. Positively, TAIT has over \$12 million of unused federal coronavirus relief grants available through fiscal 2024 for additional cushion. Moreover, TAIT's declining debt service requirements will continue to alleviate cost pressure. The current agreement with airlines, signed in 2019, also updated the revenue sharing mechanism to allow TAIT to retain more cash flow based on liquidity thresholds.

The A3 rating also considers the stable service territory in and around the Tulsa metropolitan area with steady but generally slow population growth. The stronger enplanement recovery this year is partially supported by energy-related industries benefitting from higher oil and gas prices. Still, the rating incorporates long-term challenges related to carbon transition and economic volatility given the regional economic dependence on drilling employment. Demand for air travel at TUL has some competition with other airports within driving distance with Oklahoma City being the dominant competing airport in the region.

RATING OUTLOOK

The stable outlook reflects our expectation that TAIT will maintain adequate financial metrics over the near term while continuing to deleverage.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Service territory population growth and economic diversification away from volatile oil and gas industry
- Significant improvement in financial metrics including debt service coverage ratios above 1.75x and at least two years of liquidity

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant unexpected borrowing
- Debt service coverage ratios below 1.2x and liquidity below 300 days cash on hand

LEGAL SECURITY

The bonds are supported by a pledge of net revenues of the system defined as gross revenues after the payment of operating expenses. Passenger facility charges (PFCs) are not included in the definition of gross revenues but are considered dedicated revenues for certain outstanding bonds. The rate covenant requires gross revenues plus other dedicated revenues such as PFCs and/or transfers from the Airport Improvement Fund be at least equal to a total of budgeted operating expenses, 1.25 times debt service, and the amount

needed to fund deficiencies in any fund or account under the indenture. The additional bonds test requires net revenues plus eligible PFCs revenues to be 1.25 times debt service on either a look-forward or look-back test. The debt service reserve fund is required to be funded at the standard three-prong test: the lesser of maximum annual debt service, 125% of the average annual debt service, or 10% of the original principal.

PROFILE

The TAIT operates, maintains, constructs, improves and leases both Tulsa International Airport (TUL) and Tulsa Riverside Airport, which serve the City of Tulsa. TAIT and the City of Tulsa entered into an amended and restated long term lease agreement, effective January 1, 2014, whereby the City, acting through the Tulsa Airport Authority, assigned all airport system properties and equipment to the TAIT. The restated lease agreement created more autonomy for TAIT but continued the same underlying lease arrangements with the City. Tulsa International Airport represents over 95% of TAIT operating revenues and is comprised of a central terminal and two concourses, three paved runways and over 3,700 parking spaces. The FAA classifies Tulsa International Airport as a small hub airport. TUL is served by a diverse group of air carriers including Allegiant Air, American Airlines, Delta Air Lines, Southwest Airlines, and United Airlines, along with their regional affiliates. Breeze Airways is a new entrant. Recent service announcements will result in 26 nonstop destinations from TUL, the most in the airport's history.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Airports and Related Issuers published in March 2019 and available at <https://ratings.moody.com/api/rmc-documents/60106>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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