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CREDIT OPINION
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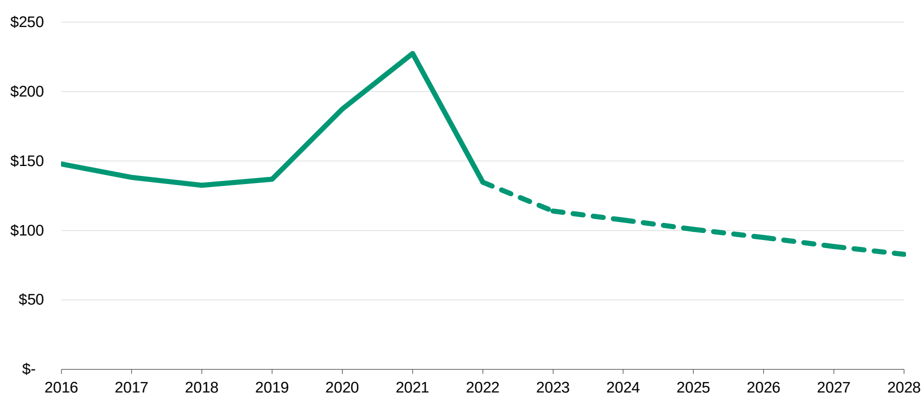
Tulsa Airports Improvement Trust, OK

Update following upgrade to A3

Summary

Tulsa Airports Improvement Trust's (TAIT; A3 stable) improved credit profile primarily reflects projected deleveraging. Funding for capital investment over the next five years is expected to come from operating cash flow, federal grants, passenger facility charges, and state and local contributions. The capital plan currently does not include new debt.

Exhibit 1
Projected deleveraging improves TAIT's credit profile
Historical and projected adjusted debt per O&D enplanement



Source: Audited financial statements; Moody's Investors Service

Enplanement recovery at the Tulsa International Airport (TUL) has consistently outpaced the national trend and culminated in strong budget to actual performance in fiscal 2022. We expect TAIT will 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 especially in a downside recession risk scenario. Moreover, declining debt service requirements will further alleviate cost pressure. The current agreement with airlines, signed in 2019, also modified revenue sharing to allow more cash flow retention based on liquidity.

The credit profile also considers Tulsa's stable service territory with steady but 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 credit profile 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 state.

Credit strengths

» Projected deleveraging with declining debt service structure

» Updated AULA allows for greater degree of cash flow retention

» Demonstrated importance of Tulsa airport to American Airlines for its maintenance and engineering global headquarters

» Extraordinary coverage protection clause allows airports to adjust airline rates upon 30 days' written notice if the rate covenant requirements are not expected to be met

» Sole provider of air service in the Tulsa area

Credit challenges

» Enplanements remain below pre-recession levels

» Leverage is currently elevated although projected to decline

» Projected lLiquidity is adequate for the risk profile but below similarly rated peers

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

» 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

» Significant unexpected borrowing

» Debt service coverage ratios below 1.2x and liquidity below 300 days cash on hand

Key indicators

Exhibit 2

Tulsa Airport Improvement Trust, OK

	2017	2018	2019	2020	2021
Total Enplanements ('000)	1,380	1,431	1,509	1,093	826
Enplanement Annual Growth (%)	0.9	3.7	5.5	-27.6	-24.4
Adjusted Debt Per O&D Enplaned Passenger ($)	138.13	132.54	136.88	187.39	227.43
Total Coverage By Net Revenues (x)	1.14	1.43	1.37	1.58	2.23
Days Cash on Hand	381	379	377	388	761

Source: TAIT; Moody's Investors Service

Profile

The TAIT operates, maintains, constructs, improves and leases both Tulsa International Airport (TUL) and the Tulsa Riverside Airport, formerly RL Jones 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 3,900 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. TUL currently serves 26 nonstop destinations, the most in the airport's history.

Detailed credit considerations

Revenue Generating Base: Enplanements are recovering at a faster pace than national levels

We expect TUL's longer range enplanement trajectory will return to a trend of stable, modest growth as it reaches pre-pandemic levels. Enplanement recovery has consistently outpaced the national trend throughout the pandemic. Management reports that this is partly due to more short-lived pandemic induced shutdowns in the state. Demand for air travel to and from the region also got a boost from activity in energy related industries supported by higher oil and gas prices this year. Management further highlights that Tulsa has a higher proportion of entrepreneurs and small businesses with less restrictive corporate travel policies which was a supporting factor in a faster return of business travelers. TUL has added eight new nonstop routes over the last year and now serves 26 nonstop destinations, the largest number in TUL's history.

The airport's rates are established under a hybrid framework in the AULA that also includes extraordinary coverage protection. Signatory airlines represent about 93% of fiscal 2021 enplanements. Landing fees are calculated using residual rate setting while other cost centers are subject to compensatory rate setting. Revenue generated from compensatory cost centers that are highly correlated with passenger demand, such as ground transportation, saw the largest declines in fiscal 2020 (see Exhibit 4). Airline revenue, meanwhile, sharply increased with the adoption of the current AULA. During fiscal 2019, while TAIT was in an extension period, revenues were lower due to revenue sharing true-ups for 2018 and 2019 that allowed fiscal 2020 to start with a clean slate. The bulk of the airline revenue sharing comes through the terminal cost center and parking and rental car revenues. The current AULA updates the revenue sharing structure compared with the previous agreement and resulted in no revenue sharing between fiscal 2020-2022.

The AULA is in place through June 30, 2024 and has two three-year extension terms that could extend the agreement to 2030. Management and airlines agreed to change the revenue sharing provision of the agreement so that it is now based on liquidity thresholds measured by days cash on hand (see Exhibit 3), and when met, the revenue share is allocated to each signatory airline based upon market share and landed weights. Importantly, the liquidity thresholds only consider amounts in TAIT's liquid cash bank accounts and would not include funds earmarked for major projects, for example. Accordingly, the Moody's calculation of days cash on hand will differ from, and often exceed, the method in the AULA for determining revenue sharing. In the previous airline agreement, 50% of net revenues were shared with signatory airlines each year, which challenged TAIT's ability to grow liquidity during enplanement growth periods.

Exhibit 3

Airline Use and Lease Agreement Revenue Sharing Thresholds

Days of Cash Threshold	Net Revenue Sharing Requirement for Signatory Airlines
365 days	10%
400 days	25%
487 days	30%
609 days	40%
730 days (max)	50%

Source: TAIT

Financial operations and position: Unused federal coronavirus relief and declining debt service will cushion a downside recession risk scenario

Declining debt service costs and federal relief allocation, paired with management's prior efforts to control operating costs in response to the pandemic, limited the pandemic's impact on TAIT's financial position and supported a substantial increase in unrestricted cash. Remaining unused federal relief provides additional cushion of over $12 million through at least 2024. Fiscal 2021 ended with a net revenue DSCR of 2.23x, including $17 million of federal coronavirus relief funding, or 1.13x without the federal funding.

Our calculation of DSCRs is based on our standard net revenue approach and will typically be lower than DSCR calculated on a bond ordinance basis. Bond ordinance basis coverage includes the beginning balance and transfers from the Airport Improvement Fund in net revenue.

According to unaudited results, we estimate that fiscal 2022 ended with a DSCR of 1.71x including $2 million of federal coronavirus relief and a solid 1.55x without. This is better than the DSCR we had anticipated last year based on the budget, which we calculated at 0.95x, while also acknowledging that the budget incorporated conservative enplanement assumptions at about 67% of 2019 levels. TAIT benefitted from revenue upside of stronger than expected enplanement recovery while keeping operating expenses very closely aligned with budget. We think that management's budgeted fiscal 2023 enplanement forecast of 100% of 2019 levels is reasonable and do not anticipate significant outperformance from that new baseline.

TAIT's current AULA is unique in that it locks in rates and charges based on pre-pandemic activity levels through 2024. With this structure, airlines would not benefit from savings resulting from any expenditure reductions or federal relief grants, but the fixed nature of the rates results in a greater degree of stability and predictability of airline charges relative to other airports after federal relief grants are exhausted. Rates can be adjusted in the extension terms after 2024. Extraordinary coverage protection in the AULA also allows TAIT to adjust terminal rental rates and signatory landing fee rates upon 30 days' written notice if TAIT estimates that the rate covenant will not be met.

LIQUIDITY

The airport had unrestricted and discretionary reserves totaling $41 million in fiscal 2021, representing 761 days cash on hand and a significant increase over prior years. We expect TAIT will return to the historical range averaging between 365-400 days as a large share of TAIT's liquidity includes funds earmarked for major projects. We expect any liquidity improvement over time will be gradual as management prioritizes needed capital investment while avoiding additional debt.

TAIT has a cash funded debt service reserve fund (DSRF). The DSRF 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.

Debt and Other Liabilities: Leverage is currently elevated but declining

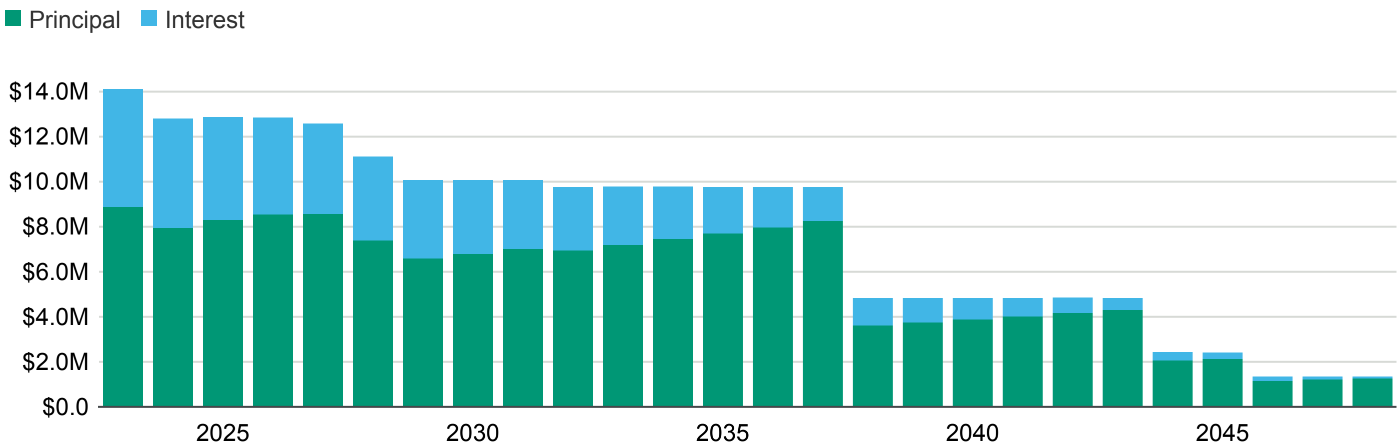
TAIT's debt burden is currently elevated relative to peers but will decline over the next several years. At the same time, much of the airport sector is adding debt. TAIT on the other hand has limited capital needs going forward after significant investment including a major terminal modernization. The largest near term project is a replacement of the existing air traffic control tower at a current estimated cost of $70 million. TAIT has set aside $7 million of its own funds and anticipates the remaining share will come from federal, state, and local funds. The Federal Senate budget appropriations bill includes a $40 million congressionally designated spending request for the project. The Oklahoma Aeronautics Commission is also working with TAIT to secure $20 million of state funding. Additionally, TAIT plans to participate in the Airport Terminal Program through the FAA to secure $12-15 million for the project. If funding does not come through as expected, the project may be deferred. TAIT has no further debt issuance plans at least over the next five years other than potential refunding to reduce interest expense.

Fiscal 2021 ended with debt totaling $151 million outstanding, representing $185 per O&D enplaned passenger before being adjusted for pensions. The adjusted debt per O&D enplaned passenger was $227. We expect the adjusted debt per O&D enplanement will fall to about $117 by 2023.

DEBT STRUCTURE

All of the airport's debt is fixed rate and matures in 2048.

Exhibit 4
TAIT's has a declining debt structure



Source: Official Statement

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 PFC 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.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

Moody's adjusted net pension liability (ANPL) in fiscal 2021 was $34.6 million, compared to TAIT's reported net pension liability of $9.8 million. We adjust the reported pension liabilities of entities that report under governmental accounting standards to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

ESG considerations

Environmental

TAIT's environmental risk reflects moderate carbon transition risk. Evolving decarbonization policies around the globe and regulations may increase operating costs for airlines and result in higher airfares that reduce the demand for air travel. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular, corporations seeking to reduce their carbon footprints. In addition, the Tulsa region has some economic concentration in the volatile oil and gas industry. Our consideration of carbon transition risk is balanced by neutral-to-low risk for physical climate risk, water management, natural capital, and waste and pollution.

Social

TAIT has limited exposure to social risk as it relates to customer relations, demographic and social trends, health and safety, human capital, and responsible production. We consider levels of social risk related to the linkage between carbon transition and demographic and societal policies to be lower in the United States compared to global peers given the geographically dispersed nature of the country and the lack of viable rail alternatives.

Governance

TAIT has limited exposure to governance risk as it relates to our assessment of management credibility and track record, organizational structure, compliance and reporting, and board structure, policies and procedures. Federal Aviation Administration regulation of US airports tightly restricts the use of funds generated at US airports to aviation purposes and essentially eliminates the possibility that a municipal owner could extract value from the airport at the expense of bondholders.

Rating methodology and scorecard factors

The grid is a reference tool that can be used to approximate credit profiles in the airport sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see Publicly Managed Airports and Related Issuers methodology for information about the limitations inherent to grids.

The published rating of A3 matches the scorecard indicated outcome.

Exhibit 5

Publicly Managed Airports and Related Issuers Methodology Scorecard

Tulsa Airports Improvement Trust, OK

Regional Position:	**Regional**		
Rate Making Framework:	Hybrid		
Factor	**Subfactor**	**Score**	**Metric**
1. Market Position	a) Size of Service Area (millions)	A	1.12
	b) Economic Strength and Diversity of Service Area	Baa	
	c) Competition for Travel	Baa	
2. Service Offering	a) Total Enplanements (millions)	Ba	0.82
	b) Stability of Traffic Performance	Baa	
	c) Stability of Costs	Aa	
	d) Carrier Base (Primary Carrier as % of Total Enplanements)	A	35.8%
3. Leverage and Coverage	a) Net Revenue Debt Service Coverage	Aa	2.23x
	b) Debt + ANPL (in USD) per O&D Enplaned Passenger	B	$227.43
		Metric	**Notch**
4. Liquidity	Days Cash on Hand	760.6	1.0
5. Connecting Traffic	O&D Traffic	99.0%	0.0
6. Potential for Increased Leverage			0.0
7. Debt Service Reserves			0.0
Scorecard Indicated Outcome:		**A3**	

Source: Moody's Investors Service

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