S&P Global 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		
Tulsa Airports Improvement Trust, Oklahoma		
Tulsa International Airport, Oklahoma		
Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt		
Long Term Rating	A+/Stable	Upgraded
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)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on Tulsa Airports Improvement Trust (TAIT), Okla.'s general airport revenue bonds, issued for Tulsa International Airport (TUL, or the airport), to 'A+' from 'A'.
- The outlook is stable.
- The upgrade reflects our improved view of TUL's financial risk profile, which we now consider very strong given improved debt capacity, which is supported by a manageable five-year capital improvement plan that requires no additional debt needs.

Security

TUL's net revenue, which includes customer facility charges (CFC) revenue, secures the bonds, along with dedicated revenue consisting of passenger facility charges (PFC) and airport net operating revenues. 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 April 30, 2024, the airport had approximately $138.7 million in debt outstanding, including $329,075 in direct placement debt outstanding.

Credit overview

The higher rating reflects our opinion of TUL's robust enplanement recovery, above pre-pandemic levels, which we expect will continue to support a very strong financial risk profile with no additional debt needs. TUL's fiscal 2023 (June 30 year-end) enplanements reached an all-time high of 1.53 million, or 102% of fiscal 2019 levels. Furthermore, fiscal 2024 year-to-date enplanements are trending favorably, at 106% of 2019 levels through December 2023. Fiscal 2025 enplanements are projected to be 1.59 million, which we believe is achievable.

Given a robust enplanement recovery, financial metrics continue to improve and trend favorably with projected DSC (S&P Global Ratings-calculated) of 2.4x in fiscal 2025, debt to EBIDA of 4.2x, and unrestricted reserves of $44.8 million, equal to 524 DCOH and 34% of debt outstanding. The airport does not expect to issue additional debt to fund its modest $80.3 million five-year (fiscal years 2025-2029) capital improvement plan (CIP). We believe this will allow the airport to sustain financial metrics consistent with a very strong financial risk profile given that 72.5% of plan funding will come from Airport Infrastructure Grants and Federal Aviation Administration grants, with the remaining 27.5% of the plan to be funded from TAIT surplus net revenues, including PFC and CFC revenues and available cash.

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

- Improving debt capacity that reflects our expectation that the airport's debt to net revenue will be near or below 5x, and a manageable CIP totaling $80.3 million for 2025 through 2029 with no additional debt currently planned to finance;
- Robust liquidity position, with $44.8 million in unrestricted cash as of May 1, 2024, equating to more than 500 DCOH and 34% of debt (S&P Global Ratings Ratings-calculated) based on the 2025 budget, that we expect will be maintained as a result of the limited use of cash reserves to pay for CIP project costs;
- Good air carrier diversity and healthy service area economy, with 2.0% three-year average projected population growth and 3.6% 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 to pay for operations if needed.

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

- Relatively small size, with 1.50 million enplanements in fiscal 2019 and 1.59 million enplanements estimated for fiscal 2025; and
- Competition from Will Rogers World Airport and other regional airports, potentially constraining growth in the airport's enplanements.

Environmental, social, and governance

We analyzed TUL's risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance and consider all credit factors neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that TUL will sustain enplanements at or above current levels, allowing the airport to maintain financial metrics, as per our calculations, that are consistent with a very strong financial risk profile.

Downside scenario

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.

Upside scenario

Although unlikely, we could raise the rating within the next two years if we believe TUL's enplanement trends and traffic levels will significantly improve on a sustained basis--supporting a significantly improved market position.

Credit Opinion

Enterprise Risk Profile--Strong

The service area supports a good base of air travel demand, despite competition

TUL predominantly serves a 10-county service area that includes Tulsa County, along with the surrounding Creek, Okmulgee, Muskogee, Wagoner, Pawnee, Rogers, Nowata, and Washington counties. The enterprise risk profile also considers TUL's predominantly origin-and-destination nature (95.4% of enplanements in fiscal 2023) with a relatively diverse and stable air carrier service, offset by some competition from nearby airports. Although TUL--a small hub airport--benefits from a good competitive position within its immediate service region, there are six airports within 200 miles, three of which are small hubs and the other three of which are non-hubs. TUL's biggest competitor, Will Rogers World Airport (which enplaned 2.10 million passengers in the fiscal year-ended June 30, 2023), in Oklahoma City, is about 122 miles southwest of the airport.

Enplanement trends continue to show a sustained recovery at or above pre-pandemic levels

TUL's finances are supported by strong enplanement trends, with fiscal 2023 enplanements at 102.0% of fiscal 2019 levels and year-to-date fiscal 2024 enplanements through December 2023 reaching 105.8% of fiscal 2019 levels. Further enplaned passenger growth to 1.59 million in fiscal 2025 is anticipated, which represents a 2.4% increase compared with fiscal 2024 enplanement projections of 1.55 million. We believe the traffic levels are sustainable and support the airport's strong enterprise risk profile. Furthermore, we believe TUL will continue to maintain financial metrics consistent with a very strong financial risk profile.

Good air carrier diversity with a moderate cost structure As of May 1, 2024, there were five airlines serving TUL, along with several charter carriers, and two signatory mainline freight carriers, one non-signatory mainline freight carrier, and several non-mainline freight carriers. The top two airlines, Southwest Airlines Co. and American Airlines Inc., represented 37% and 31% of total enplanements, respectively, for fiscal 2023. United Air Lines Inc. has the third-largest market share at 16%.

We consider TUL's cost structure moderate. Cost per enplanement (CPE) has been $8-$11 in recent years, despite transitory increase in fiscal years 2020 and 2021, as enplanements declined at the onset of the pandemic followed by a swift recovery. Airline CPE was $10.71 in fiscal 2022, $8.38 in fiscal 2023, and is expected to remain stable for fiscal 2024 at a projected $8.14.

Strong management and governance with solid financial policies and planning

The airport's management and governance is strong, in our opinion. This reflects our view of TUL's strategic positioning, risk management and financial management, and organizational effectiveness.

Management consistently targets to maintain 365 unrestricted DCOH in reserves, and ample debt and liabilities capacity, which we believe mitigates risks associated with unforeseen expenses, while also enabling the airport to absorb higher capital costs in the future if growth dictates.

Financial Risk Profile—Very Strong

Improved debt capacity supported by financial performance and a management five-year capital improvement plan that does not require additional debt issuance as a funding source

Our improved view of TUL's financial risk profile is supported by our expectation that the airport will maintain debt-to-net revenues, which include PFC and CFC revenues applied to debt service payments, at extremely strong levels below 5x (S&P Global Ratings-calculated), while continuing to maintain debt service coverage (DSC) at levels we consider strong (1.25x-3.00x), and with liquidity and financial flexibility remaining strong, with the airport maintaining 400-800 unrestricted days' cash on hand (DCOH) and between 20-50% of debt outstanding, respectively.

We expect the airport's revenue performance will continue to improve and that DSC for fiscal year June 30, 2024, will remain at levels we consider strong (1.25x to 3.0x; S&P Global Ratings-calculated). DSC was 1.97x in fiscal 2023 (see table), and we expect it will remain at similar levels in fiscal 2024 and fiscal 2025. We evaluated audited results for fiscal 2023, budget-to-actual results for the seven months ended February 2024, and the fiscal 2024 budget, which we consider reasonable, assuming enplanements achieve 105.8% of 2019 levels in fiscal 2024. In fiscal 2023, TUL was able to improve its liquidity position and remain above its 365 unrestricted DCOH target, with liquidity balances equal to 517.3 unrestricted DCOH and 27% of debt outstanding.

The airport has a $80.3 million capital improvement plan (CIP) for fiscal years 2025-2029 that is reasonable, in our view. Funding sources for the plan have been identified and include FAA grants (52.5%), AIG grants (20%), and TAIT sources, which include surplus net airline revenues, PFCs, and CFCs. More important, the five-year CIP does not require additional debt issuance as a funding source, which supports our forward-looking view that the airport's debt capacity will continue to be maintained at extremely strong levels, below 5x on a debt-to-net-revenue basis, as net revenues continue to grow and as existing debt amortizes.

Tulsa International Airport, Oklahoma--Financial and operating data

	--Fiscal year ended June. 30--					--Medians for 'A' rated airports--
	2023	**2022**	**2021**	**2020**	**2019**	**2022**
Financial performance						
Total operating revenue ($000s)	44,796	39,492	30,259	34,605	34,520	112148
Plus: interest income ($000s)	716	697	0	1,004	1,523	N.A.
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	26,470	25,106	19,251	24,394	24,805	76065
Numerator for S&P Global Ratings' coverage calculation ($000s)	28,056	23,176	16,492	18,068	20,475	N.A.
Total debt service ($000s)	14,248	13,950	16,068	16,314	15,416	43184
Denominator for S&P Global Ratings' coverage calculation ($000s)	14,248	13,950	16,068	16,314	15,416	N.A.

Tulsa International Airport, Oklahoma--Financial and operating data (cont.)						
	--Fiscal year ended June. 30--					--Medians for 'A' rated airports--
	2023	2022	2021	2020	2019	2022
S&P Global Ratings-calculated coverage (x)*	1.97	1.66	1.03	1.11	1.33	1.58
Debt and liabilities						
Debt ($000s)	138,798	147,804	151,394	160,084	170,605	512043
EBIDA ($000s)	18,326	14,386	11,008	10,211	9,715	N.A.
S&P Global Ratings-calculated net revenue ($000s)	28,056	23,176	16,492	18,068	20,475	50189
Debt to net revenue (x)	4.9	6.4	9.2	8.9	8.3	7.7
Debt to EBIDA (x)	7.6	10.3	13.8	15.7	17.6	N.A.
Liquidity and financial flexibility						
Unrestricted cash and investments ($000s)	37,510	32,305	30,717	18,411	17,249	118959
Unrestricted days' cash on hand§	517.2	469.7	582.4	275.5	253.8	627
Available liquidity to debt (%)	27.0	21.9	20.3	11.5	10.1	28
Operating metrics - airport						
Rate-setting methodology	Hybrid	Hybrid	Hybrid	Hybrid	Hybrid	N.A.
Total EPAX (000s)	1,531	1,335	826	1,093	1,509	4624
Origin and destination (O&M) EPAX (%)	N.A.	N.A.	98.7	98.6	96.0	95
Primary passenger airline carrier name	Southwest	Southwest	Southwest	Southwest	Southwest	N.A.
Primary airline EPAX market share (%), including regional affiliates	37.1	31.9	32.3	32.5	32.9	36
Passenger airline revenue ($000s)	14,549	13,841	12,730	13,324	10,265	N.A.
Debt per EPAX ($)	90.66	110.71	183.29	146.46	113.06	117
Airline cost per EPAX ($)	9.50	10.37	15.41	12.19	6.80	9.03
Annual PFC revenue ($000s)	5,911	5,323	3,447	4,201	5,940	N.A.
PFC rate ($)	4.50	4.50	4.50	4.50	4.50	N.A.

EPAX--Enplanements. PFC--Passenger facility charge. CFC--Customer facility charge. MADS--Maximum annual debt service. N.A.--Not available. DSCR--Debt service coverage ratio. EBIDA = Total operating revenue - total O&M expenses excluding noncash expenses. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excluding noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions criteria for more S&P Global Ratings definitions and calculations.*S&P Global RAtings'calculation of DSCR 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. §S&P Global Ratings'calculation of days cash on hand will differ from, and often exceed, the method in the Airline Use and Lease Agreement for determining revenue sharing.

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 May 21, 2024)

Ratings Detail (As Of May 21, 2024) (cont.)		
Tulsa Airports Improvement Trust, Oklahoma		
Tulsa International Airport, Oklahoma		
Trustees of the Tulsa Arpts Imp Trust (Tulsa Intl Arpt) arpt (BAM)		
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Many issues are enhanced by bond insurance.