

CREDIT OPINION

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Salina Airport Authority, KS

Update to credit analysis

Summary

The credit profile for [Salina Airport Authority, KS](#) (Aa3) benefits from a moderately sized and growing tax base that is coterminous with the [City of Salina](#) ("city", Aa3) and the airport's regional significance as a refueling stop due to its location in the middle of the country and its long runway. Though resident income levels are below average, the cost of living is also low. Despite some future debt plans, the debt and pension burdens will remain manageable. The authority is partially reliant on economically sensitive revenue, and while historically fund balance and liquidity have been volatile and narrow, liquidity has stabilized recently and is expected to remain around current levels given a positive revision to the cash policy. The financial position improved in fiscal 2021 – aided by federal aid - and fiscal 2022 unaudited results are positive. Upon approval of the city council, the authority can levy 3 mills for operations, which has never been accessed, but the flexibility is a credit strength.

Credit strengths

- » Regional significance due to location and long runway
- » Ability to levy an additional 3 mills with city council approval

Credit challenges

- » Reliance on economically sensitive revenues for operations

Rating outlook

Outlooks are usually not assigned to local government credits with this amount of debt.

Factors that could lead to an upgrade

- » Significant economic and tax base growth
- » Significant growth in unrestricted fund balance and liquidity

Factors that could lead to a downgrade

- » Contraction in the economy and tax base
- » Weakening of fund balance or liquidity
- » Significant increase in leverage

Key indicators

Exhibit 1

Salina Airport Authority, KS

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$3,046,949	\$3,097,885	\$3,150,409	\$3,294,116	\$3,325,194
Population	47,513	47,230	46,998	46,706	46,896
Full Value Per Capita	\$64,129	\$65,591	\$67,033	\$70,529	\$70,906
Median Family Income (% of US Median)	88.3%	86.7%	91.3%	85.0%	84.1%
Finances					
Operating Revenue (\$000)	\$4,280	\$4,848	\$4,844	\$5,294	\$5,620
Fund Balance (\$000)	\$2,658	\$225	\$1,450	\$3,209	\$6,469
Cash Balance (\$000)	\$1,614	\$255	\$655	\$2,256	\$5,304
Fund Balance as a % of Revenues	62.1%	4.6%	29.9%	60.6%	115.1%
Cash Balance as a % of Revenues	37.7%	5.3%	13.5%	42.6%	94.4%
Debt/Pensions					
Net Direct Debt (\$000)	24,096	\$21,434	\$22,430	\$23,562	\$25,680
3-Year Average of Moody's ANPL (\$000)	\$1,703	\$1,807	\$2,010	\$2,255	\$2,445
Net Direct Debt / Full Value (%)	0.8%	0.7%	0.7%	0.7%	0.7%
Net Direct Debt / Operating Revenues (x)	5.6x	4.4x	4.6x	4.5x	4.6x
Moody's - ANPL (3-yr average) to Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - ANPL (3-yr average) to Revenues (x)	0.4x	0.4x	0.4x	0.4x	0.4x

Sources: US Census Bureau, Salina Airport Authority's financial statements and Moody's Investors Service

Profile

The Salina Airport Authority was created for the purpose of accepting as surplus property portions of the former Schilling Air Force Base, which was closed by the United States Department of Defense in 1965. The authority operates and develops the Salina Regional Airport and the Salina Airport Industrial Center. The authority is coterminous with the City of Salina, the county seat of [Saline County](#) (Aa2). The city is the seventh largest city in [Kansas](#) (Aa2 stable), with an estimated population of 46,900.

Detailed credit considerations

Economy and tax base

The authority's tax base is projected to remain stable over the near term due to the City of Salina's commercial, retail and medical importance to north central Kansas. Assessed valuations averaged a 3.6% annual increase over the past five years, including a significant 9.2% increase in fiscal 2023 to \$3.7 billion. Residential development, as well as private investment to construct additional warehouses, will drive future tax base growth.

With a 12,300 foot runway and with its central geographic location, the airport sees a variety of aviation use. Daily commercial service to [Denver](#) (Aaa stable) and [Chicago](#) (Baa3 stable) is provided by SkyWest Airlines operating as United Express ([United Airlines, Inc.](#) rated Ba1 stable). The airport also serves as an Airport of Embarkation/Debarcation for the Fort Riley Army installation located 60 miles east of Salina. The airport is also available for corporate, air freight and flight training activity. Popular as a mid-continent fuel stop, the authority benefits from a fuel surcharge collected on each gallon of fuel purchased from the authority's tenant and fixed based operator, Avflight Salina, which delivered 2.4 million gallons of fuel in 2022.

The authority owns 1.2 million square feet of manufacturing, warehousing and office space, and is home to over 125 businesses and organizations. Currently, the authority's manufacturing space is 89% leased when accounting for leases that exceed one year (up from 82% in 2021). The three largest tenants – 1 Vision Aviation, Avflight Salina, and Kansas Erosion Products - accounted for 32.7% of

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leasing revenue in 2022. The airport also has a partnership with [Kansas State University's](#) (Aa3 stable) Polytechnic Program which offers degrees in professional flight training, airframe and power plant maintenance, airport management, and avionics.

Financial operations and reserves

Financial operations improved in fiscal 2021 (ending Dec. 31), as expected, and reserves will remain around current levels based on positive unaudited fiscal 2022 results and year-to-date fiscal 2023 results. The authority receives over half of its revenue (excluding ad valorem taxes that pay debt service) from multiyear leases, which provided some stability in fiscal 2020 despite the steep decline in air traffic. But the remaining operating revenue is economically sensitive because it comes from fees from aircraft landing, a fuel surcharge on each gallon of fuel provided to aircraft, and events that the airport holds annually. Additionally, the airport receives \$200,000 annually from the Department of Defense for serving as a forward operating location (FOL) for military aviation units.

In fiscal 2021, the authority realized an operating surplus of about \$83,000 (net of depreciation). Total cash improved to \$5.3 million from \$2.3 million (partially due to federal stimulus aid); when removing cash that is restricted for debt service and unspent bond proceeds, unrestricted cash totaled \$1.8 million. The authority has a formal policy to maintain unrestricted cash of \$1.8 million, which is equal to about 70% of fiscal 2020 operating expenses (net of debt service and depreciation).

Fiscal 2022 unaudited results reflect another surplus of about \$52,000 and an improvement in cash to about \$2.1 million. The fiscal 2023 budget included a \$33,000 surplus and cash is projected to be back to \$1.8 million at year-end.

The authority can levy up to three mills for operations, subject to approval of Salina's city council. Management has never utilized the levy and currently has no plans to do so. While the limit does not apply to the authority's ability to levy unlimited taxes for the repayment of its general obligation debt, it provides revenue raising flexibility if needed.

The authority continues to levy 1 mill for grants due to the achievement of 10,000 enplanements annually. The milestone altered the airport's designation to that of a "primary" airport by the FAA and made the airport eligible for \$1 million in FAA grants. The revenue generated by the 1 mill relieves pressure on airport operations to match grant proceeds.

Debt and pensions

The debt burden will remain manageable because of modest tax base growth and limited future debt plans over the next five years. Post-issuance of the Series 2023 A, B and C bonds, the debt burden will be 0.9% of fiscal 2023 full value. The authority needs to replace its underground fuel storage tanks, and while the majority of the cost will be paid for with FAA grants, the authority will likely be responsible for \$1.5 - \$3.5 million of the total project costs of \$8.5 million; the authority will issue GO notes for its portion. Further, the authority may issue leasehold revenue bonds for various development projects, but the debt would be paid for by the state and developers.

Legal security

The bonds are general obligations of the authority and are payable from ad valorem taxes which may be levied without limitation as to rate or amount upon all taxable tangible property, real and personal, within the territorial limits of the authority, which is coterminous with the City of Salina.

Pensions and OPEB

The authority participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan. Moody's three-year average adjusted net pension liability (ANPL) for the authority is \$2.5 million, or 0.4 times 2021 operating revenue and 0.1% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the authority's reported pension information, but to improve comparability with other rated entities. We determined the authority's share of liability for the cost-sharing plans administered under KPERs in proportion to its contributions to the plan.

ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks. According to data from Moody's ESG Solutions, the district has high exposure to water stress, medium exposure to heat stress and wildfires, and low exposure to floods.

Social

Resident income levels are slightly below average with a median family income equal to about 85% of the US median; however, this is mitigated by a below average cost of living with median home values equal to 57% of the US median. Population has been relatively stable due to the city's status as a commercial hub for north central Kansas. The city's 3.3% unemployment rate (Feb. 2023) remained favorable relative to the nation (3.9%).

Governance

By statute, the Salina City Commission appoints a five-member authority board of directors. The authority approves its own budget (subject to city consent for any General Purpose Operations levy) and is responsible for repaying its own debt. The mill levy for debt service is set by the authority's board and is not subject to oversight or approval requirements by any other entity. The board appoints the executive director who is the chief executive officer of the authority. The authority practices good governance by operating lean to keep the overall tax rate down, and to rely on operating revenue to fund operations so as not to require the need for the additional three mill levy for operations.

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