

New Issue: MOODY'S ASSIGNS MIG1 SHORT-TERM RATING TO SALINA AIRPORT AUTHORITY'S (KS) \$11.7 MILLION TAXABLE GENERAL OBLIGATION TEMPORARY NOTES SERIES 2010

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Aa2 LONG-TERM RATING AFFIRMATION APPLIES TO \$13.9 MILLION OF TAX BACKED GENERAL OBLIGATION BOND DEBT

Airport
KS

Moody's Rating

ISSUE	RATING
Taxable General Obligation Temporary Notes, Series 2010	MIG 1
Sale Amount	\$11,700,000
Expected Sale Date	08/18/10
Rating Description	General Obligation

Opinion

NEW YORK, Aug 13, 2010 -- Moody's Investors Service has assigned a MIG1 rating to the Salina Airport Authority's (KS) \$11.7 million Taxable General Obligation Bonds Series 2010. Concurrently, Moody's has affirmed the Aa2 rating on the Authority's outstanding general obligation unlimited tax-backed debt of \$13.9 million. Proceeds of the current issue will provide funding for capital improvements at the Salina Airport and the Airport Industrial Center, including the construction of a new building; improvement and design work for six other buildings; and runway improvements. A portion of the bond proceeds will redeem the \$7.1 million of outstanding Series 2007- Temporary Notes, which provided temporary financing for capital improvements. Affirmation of the Aa2 rating reflects the Authority's role as a regional economic center; satisfactory financial operations despite recent revenue pressures and narrow cash reserves; and moderate but manageable debt levels. The MIG 1 rating is based on expected market access for the take out refinancing, a history of successful marketing of notes and bonds, and the implied long-term credit quality reflected in the Authority's Aa2 issuer rating.

MODERATELY SIZED TAX BASE SERVES AS REGIONAL ECONOMIC CENTER

Located in Saline County 95 miles north of Wichita (rated Aa1/ stable outlook), the Salina Airport Authority's taxing boundaries are coterminous with those of the City of Salina (rated Aa2). Despite some challenges, we believe that due to its position as a regional retail hub, Salina should continue to enjoy relative economic stability. The City of Salina's medium-sized tax base reached \$2.9 billion in 2009, the pace of tax base growth has slowed significantly, declining by 0.7% in 2009 compared to a 7.5% increase in 2006. The decline in 2009 is partially due to overall decline in valuations as well as the state's recent exemption of machinery and new equipment. Located at the intersection of I-70 and I-135, the city serves as the regional retail, commercial, industrial and medical hub for the largely agricultural communities of north central Kansas. Resident income levels approximate state and national medians with per capita and median family incomes at 90.7% and 91.6%, respectively. Despite recent layoffs, the city's unemployment rate of 5.7% continues to trend below those of the state (6.3%) and nation (9.7%) for May 2010.

The Salina Airport Authority is located on the former site of the Schilling Air Force Base, which was closed by the U.S. Department of Defense in 1965. In 1965, the Airport Authority was created on 2,900 acres of the closed base. By statute, the Salina City Commission appoints a five-member Authority board of directors, but the Authority approves its own budget (subject to city consent for any operating tax levy) and is responsible for repaying its own debt. The Authority has two primary functions, one of which is to manage airport operations. With a 12,300 foot runway and with its central geographic location, the airport sees a variety of aviation use. Daily commercial service to Kansas City is provided and the airport is available for corporate, military, 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 two providers, Flower Aviation and America Jet.

The Authority's second role is to act as a landlord and a facilitator of economic growth at the Salina Airport Industrial Center. Salina Municipal Airport and Airport Industrial Center is home for over 80 businesses and organizations (45 of the businesses/ organizations are tenants of the Authority) at close of 2009. The Authority's top tenant, the Kansas Military Board, accounts for nearly 12% of total revenues (based on 2009 figures). Favorably in January 2010, the Kansas Military Board expanded their facility for additional unit trainings in the Salina area. The Authority's second largest tenant, Hawker Beechcraft, accounted for more than 7.0% of total revenues in 2009. Hawker Beechcraft announced plans to close their Salina Airport Authority facility no later than February 2012, leaving over 484,000 of square feet of space that generated lease revenue of approximately \$424,000. Officials report that significant future improvements will occur to attract companies to the space that Hawker Beechcraft occupies. Future economic growth is expected to be driven by aircraft maintenance and related technology services. We believe the Authority's role as a regional economic center will offset some job losses resulting from the Hawker closing and provide a level of stability to the greater region. We will closely monitor prospects of new tenants at the facility.

SATISFACTORY FINANCIAL OPERATIONS DESPITE RECENT REVENUE PRESSURES AND NARROW CASH RESERVES

With strong management, we expect the Salina Airport Authority's financial operations to remain satisfactory, despite narrow unrestricted cash reserves. As the Authority has used cash on hand to finance capital improvements, unrestricted cash levels have decreased in recent years, from \$3.4 million in fiscal 2002 to \$386,000 in fiscal 2007. Management intends to increase the unrestricted cash balance to between \$1.3 million and \$1.5 million by fiscal 2013. To that end, airport officials report that the unrestricted cash balance increased from \$460,000 in 2008 to \$553,000 in 2009, and it is budgeted to further increase to \$620,000 in fiscal 2010. The Authority's two largest revenue sources are building and land rent representing 40% of total revenues and property taxes comprising 38% of fiscal 2009 total revenues. The Authority's lease rental revenue exhibits a notable degree of concentration, with the top ten tenants accounting for 45% of total revenues in fiscal 2009 (based on 2009 audited financial statements). A somewhat mitigating factor in the departure of Hawker Beechcraft is that the company had very low rental rates grandfathered in, which the Authority believes it can raise over three times and still be competitive.

The Authority's second largest revenue stream is property taxes. The Authority can levy up to 3 mills for operations, subject to approval by the city. The Authority currently levies 4.315 mills, an increase from 2008 mill levy of 2.877, generating approximately \$1.3 million in revenue. The City of Salina recently approved a resolution to lower the mill levy to 4.055. The Authority can also levy an additional one mill to match grants; this levy is not used at this time. These limits do not apply to the authority's ability to levy unlimited taxes for the repayment of its general obligation debt.

The Salina Public Entities (Salina Airport Authority, City of Salina, Saline County Unified School District No. 305, and Kansas State University at Salina) filed suit against the United States on May 27, 2010. The suit pertains to the terms, condition and funding associated with the environmental cleanup of contamination on airport grounds. Cost estimates for the project have not yet been finalized, but the four local government entities may collectively be responsible for \$2 million to \$3 million per year for the next 30 years. Despite this potential expense and concentration in the Authority's revenue stream, we believe that the Authority will be able to increase cash reserves to adequate levels over the long term. However, continued decreases or the inability to meet targeted increases in cash reserves may factor into future credit reviews.

MODERATE DEBT LEVELS REMAIN MANAGEABLE

The Authority's debt levels are expected to remain at moderate manageable levels. Historically, Kansas statutes limited the Authority's aggregate general obligation debt issuance to 3% of the City of Salina's total assessed valuation. In 2007, the Authority gained approval to increase the limit to 10% of assessed valuation. The limit was increased to allow the Authority to issue debt for various projects that officials hope will further stimulate economic activity at the Airport Industrial Center. Officials plan to issue all or part of the additional permitted debt within the next several years. At 0.9%, the Authority's current direct debt position is affordable. The Authority's overall debt burden of 4.4% is above average and is largely due to the overlapping districts (City of Salina and Saline County Unified School District 305). Principal amortization of the Authority's general obligation debt is somewhat slower than average, with 50.3% of debt retired in ten years.

KEY STATISTICS:

2009 Estimated population: 46,180

2009 Full value: \$2.9 billion

1999 Per Capita Income: \$18,593 (86% of US)

1999 Median family income: \$45,433 (91% of US)

City of Salina unemployment rate (May 2010): 5.7%

Fiscal 2009 net assets: \$28.1 million

Fiscal 2009 unrestricted cash: \$553,000 (26% of operating revenues)

Direct debt position: 0.9%

Overall debt burden: 4.4%

Principal amortization (10 years): 50.3%

Post-sale general obligation debt outstanding: \$25.9 million

PRINCIPAL METHODOLOGY

The principal methodology used in rating Salina Airport Authority (KS) was Moody's Bond Anticipation Notes and Other Short Term Financings published in May 2007 and available on <http://www.moodys.com> in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the Salina Airport Authority was on May 19, 2009, when a rating of Aa3 was assigned to the outstanding General Obligation debt. That rating was subsequently recalibrated to Aa2 on April 30, 2010.

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