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New Issue

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Salina Airport Authority, KS

New Issue: Moody's Assigns Aa3 Rating to Salina Airport Authority's (KS) $15.1M GO Refunding Bonds, Series 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to Salina Airport Authority's (KS) $10.3 million Taxable General Obligation Refunding Bonds, Series 2017-A and $4.8 million General Obligation Refunding Bonds, Series 2017-B. We also maintain the Aa3 rating on the Authority's outstanding parity debt. Post-sale, the Authority will have $24.1 million in general obligation debt outstanding.

Assignment of the Aa3 reflects the Authority's moderately sized and stable tax base and limited debt profile. The rating also considers the declining revenues and narrow cash position of airport operations.

Credit Strengths

» Moderately sized and stable tax base

» Limited debt profile with minor near term issuance plans

Credit Challenges

» Declining revenues and narrow cash position of airport operations

» Operations dependent on tenant occupancy

Rating Outlook

Moody's does not usually assign an outlook to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Significant improvement of the Authority's cash position

» Substantial expansion of the tax base

Factors that Could Lead to a Downgrade

» Significant contraction of the tax base

» Material additional leveraging of the tax base

» Maintenance of ad valorem levy below sum sufficient debt service requirements

Key Indicators

Exhibit 1

Salina Airport Authority, KS	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 2,891,461	$ 2,884,189	$ 2,889,386	$ 2,917,268	$ 2,968,008
Full Value Per Capita	$ 61,018	$ 60,586	$ 60,541	$ 60,911	$ 62,040
Median Family Income (% of US Median)	84.8%	84.3%	82.5%	84.6%	86.2%
Finances					
Operating Revenue ($000)	$ 2,307	$ 2,160	$ 2,068	$ 1,909	$ 1,877
Fund Balance as a % of Revenues	186.7%	76.9%	42.9%	15.2%	38.3%
Cash Balance as a % of Revenues	186.7%	76.9%	42.9%	15.2%	38.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 26,180	$ 25,063	$ 24,104	$ 23,131	$ 23,667
Net Direct Debt / Operating Revenues (x)	11.3x	11.6x	11.7x	12.1x	12.6x
Net Direct Debt / Full Value (%)	0.9%	0.9%	0.8%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	1.0x	0.9x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.1%	0.1%	0.1%

Source: Moody's Investors Service; Salina Airport Authority's audited financial statements fiscal years 2011-2015

Detailed Rating Considerations

Economy and Tax Base: Moderately Sized Tax Base Serves as Regional Economic Hub

The Authority's moderately sized tax base will remain stable over the near term as it continues to serve as the commercial and employment center for the surrounding areas. The Authority's tax base is coterminous with the City of Salina (Aa3), the county seat of Saline County, and located 90 miles north of Wichita (Aa1 stable) and 110 miles west of Topeka (Aa3). The $3.0 billion (2016) tax base has enjoyed relative stability over the past five years with expansion averaging a modest 0.5% increase during the period. Resident wealth levels are slightly below average with a median family income equal to 86.2% of the US (2015); however, this is mitigated by a below average cost of living with median home values equal to 65.5% of the US. The 3.1% unemployment rate of the city in April 2017 remained favorable relative to state (3.5%) and national (4.1%) levels during the same period.

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 General Purpose Operations levy) and is responsible for repaying its own debt. The Authority has two primary functions: management of airport operations and oversight and facilitation of economic growth at the Salina Airport Industrial Center.

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, CO (Aaa stable) is provided by Great Lakes Airlines, a code-share partner with United Airlines, Inc. (Aa3 stable). The airport also serves as an Airport of Embarkation/Debarkation for the Fort Riley, Kansas 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 (FBO), Avflight Corporation, which delivered 1.8 million gallons of fuel in 2016.

Salina Regional Airport and Airport Industrial Center is home to over 100 businesses and organizations with 58 of the businesses tenants of the Authority. The two largest tenants, Learjet, Inc. and Avflight Salina, accounted for 32% of leasing revenues in 2016. The airport also has a partnership with Kansas State University's (Aa2 negative) Polytechnic Program which offers degrees in professional flight training, airframe and power plant maintenance, airport management, and avionics. Future reviews will focus on changes in occupancy and new tenants at the facility.

Financial Operations and Reserves: Narrow Reserves to Remain Stable

The Authority's financial operations will remain satisfactory despite narrow unrestricted cash reserves. Lease terminations, namely the closure of Hawker Beechcraft Corporation in 2012, has driven a trend of declining operating revenues in recent years. In 2010, the Authority's occupancy rate was 82%; occupancy was just 60% as of June 2017. The Authority has made progress in re-leasing roughly 30% of the 484,000 square feet vacated by HBC since 2014. Increasing fuel sales and well as additional revenue from existing tenants has stabilized the Authority's finances. Operating revenues declined less than 2% in 2015 from the prior year while operating expenditures declined more than 5% leading to a $496,000 cash surplus. The Authority's largest revenue source in 2015 was building and land rent of $1.1 million, or 57% of operating revenues. Unaudited 2016 financials report a 4.1% operating revenue increase and a modest surplus. Additionally, management projects the mill levy for debt service will produce small surpluses in 2017 and 2018. Management, with board approval, aims to maintain the surpluses as debt service reserves.

During fiscal 2015 the Authority levied 4.486 mills for debt service generating approximately $2.0 million in revenue, equal to 0.99 times debt service on outstanding GO bonds. Positively, 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. However, the Authority can also levy up to 3 mills for operations, subject to approval of the City of Salina, and one mill to generate grant matching funds, subject to petition of voters. While these levies are not currently in use, the Board is considering implementing the 1 mill levy for grants in anticipation of achieving 10,000 enplanements in 2017. The milestone would alter the airport's designation to that of a “primary” airport by the FAA and make the airport eligible for $1 million in FAA grants. The revenue generated by the 1 mill would relieve pressure on airport operations to match grant proceeds. Management does not report any plans to utilize the 3 mills available for general operations. While these limits do not apply to the authority's ability to levy unlimited taxes for the repayment of its general obligation debt, they do provide revenue raising flexibility. Management reports fiscal 2017 is tracking roughly 6% over budget in revenues. Managements ability to maintain balanced operations and improve the Authority's liquidity profile will remain a key credit characteristic in future reviews.

LIQUIDITY

The Authority closed 2015 with approximately $720,000 in cash, representing 38.3% of operating revenues. Unaudited financials for 2016 report an ending cash position of $174,000, or 9% of operating revenues. The liquidity decline is partly due to the prepayment of a 2017 expenditure and without the prepayment the cash position would equal approximately $265,000, or 13.6% of revenues.

Debt and Pensions: Debt to Remain Manageable in the Near Term

The Authority's debt will remain manageable in the near term given nominal future issuance plans and average principal repayment. The Authority's debt is comprised of $24 million in general obligation debt and $657,000 in lease purchase obligations. The total outstanding debt represents 0.8% of 2016's full value. Future debt plans are largely dependent on grant proceeds and “build-to-suit” tenant agreements available at the Authority's Industrial Center for which the Authority can provide up to 100% financing for land and building costs.

DEBT STRUCTURE

All of the Authority's debt is fixed rate and matures over the long term (final maturity fiscal 2031). Principal amortization is below average with 56.7% of principal repaid within ten years.

DEBT-RELATED DERIVATIVES

The Authority is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The Authority participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan. Contributions totaled $70,000 in fiscal 2015, equal to the statutorily required contribution, and representing 3.7% of operating revenues. KPERS recently reduced the assumed rate of return from 8% to 7.75%, which will translate to increased contributions starting in fiscal 2019. The increased pension costs are expected to be manageable, and potentially fall under an exemption of the property tax lid legislation.

Moody's three year average adjusted net pension liability (ANPL) for the Authority is $1.8 million, or 0.94 times 2015 operating revenues and 0.85% of 2016 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 itscontributions to the plan. We expect that the Authority will adequately incorporate rising pension costs into its budget while maintaining operational balance.

Management and Governance

Although originally created by the City of Salina, the Authority operates on an ongoing basis as a separate and distinct entity from the City, except for certain matters regarding taxing abilities, appointment of officials, and debt issuance. The Authority is governed by a five-member Board of Directors appointed by the governing body of the City of Salina. Each director serves a three-year term and no director can serve for more than eight consecutive years. The governing body of the City of Salina maintains the right, by a majority vote, to remove any director of the Authority from Office. As the Authority is so closely linked to the City of Salina, the institutional framework score of Aaa was used as a proxy for the Authority.

Kansas cities have an Institutional Framework score of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. Specifically, large revenue sources for cities include property taxes and sales taxes. Sales taxes can be increased via voter referendum. Property taxes are now subject to an annual lid which limits the additional amount of taxes generated to the previous year plus the five year rolling average of the Consumer Price Index; however, numerous exemptions are stipulated in the legislation including expenses for debt service, public safety, and state and federal mandates among others. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Kansas is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds are general obligations of the Authority payable as to both principal and interest 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 City of Salina. The full faith, credit and resources of the Authority are irrevocably pledged for repayment of the bonds.

Use of Proceeds

Proceeds of the bonds will refund certain maturities of the Authority's outstanding debt for savings with no extension of maturity.

Obligor Profile

The authority is coterminous with the City of Salina, the county seat of Saline County. The City of Salina is located in north central Kansas, near the geographic center of the contiguous United States. It is the seventh largest city in Kansas, with an estimated population of 47,840 in 2015.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Salina Airport Authority, KS

Issue	Rating
General Obligation Refunding Bonds Series 2017-B	Aa3
Rating Type	Underlying LT
Sale Amount	$4,765,000
Expected Sale Date	06/20/2017
Rating Description	General Obligation
Taxable General Obligation Refunding Bonds Series 2017-A	Aa3
Rating Type	Underlying LT
Sale Amount	$10,290,000
Expected Sale Date	06/20/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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