January 2020

Debt Affordability Study 2019

Oklahoma State Treasurer Randy McDaniel • Andrew Messer, Deputy Treasurer for Debt Management

Executive Summary

This report is prepared in accordance with 62 O.S. Section 34.200-1, requiring the Deputy Treasurer for Debt Management, in cooperation with the Office of Management and Enterprise Services, to produce annual debt affordability studies.

In addition to the annual debt management report and the Comprehensive Annual Financial Report, the debt affordability study (Study) provides the Governor and Legislature with an additional tool to contextualize state debt and assess the impact of future debt issuance on the state's fiscal position. The Study assists this endeavor by providing information and analysis that can be utilized by policymakers for the cost-effective management of the state's capital investments.

The study projects the state's debt position under various scenarios, demonstrating how changes in market conditions or the state budget can impact affordability.

Oklahoma is projected to have additional debt capacity over the next five fiscal years, even when assuming conservative growth in general revenue and issuance of all authorized debt. For fiscal year 2020, the state has approximately $1.8 billion in excess par value debt capacity.

The state has two structural limits in place to prevent debt from unduly straining the state budget. The first is the constitutional requirement that general obligation bonds be approved by a vote of the people and be secured by a specific revenue source. The second is the statutory debt service limit that prohibits the state's net tax-supported debt service from exceeding 5% of the five-year average of general revenue collections.

Due in part to these limits, Oklahoma's net tax-supported debt and debt service is among the lowest in the nation. A comparison of a variety of debt metrics relative to peer states illustrates Oklahoma is a low debt state ranking well below the national average and the region in every metric.

The state has primarily used the Oklahoma Capitol Improvement Authority to issue lease-revenue bonds to address the state's capital needs. The state also issues non-tax supported debt through various state governmental entities with the authority to issue bonds secured through a specific revenue source.

Voters have not approved a general obligation bond issuance since 1992. Those bonds were retired in 2018 leaving the state with no governmental-purpose general obligation debt.

Pension liabilities represent the state's largest outstanding obligation and are included in the study to present a comprehensive examination of the state's fiscal position. Oklahoma's commitment to funding pension contributions combined with plan reforms have improved the state's systems funded status significantly in recent years.

Oklahoma's general obligation credit rating was downgraded by Fitch Ratings Service and Standard & Poor's in 2017. The ratings agencies cited structural imbalance of the state budget as the leading factor in their decision to lower the state's credit rating. The lower rating will increase borrowing cost to the state over time making debt issuance a less cost-effective tool for policymakers.

However, fiscal years 2018 and 2019 both ended with significant deposits in the Constitutional Reserve Fund, and as of the beginning of fiscal year 2020, the state's reserve position has never been stronger. When combined with a structurally balanced fiscal year 2019 and 2020 budgets, the state's fiscal position has stabilized and continued improvement could lead to an upgrade in the state's credit rating in the future.

Oklahoma State Debt Profile

The State of Oklahoma issues primarily two kinds of tax-supported debt: general obligation (GO) bonds and Appropriation Backed Lease-Revenue bonds.

General Obligation Bonds

The state constitution requires voter approval of all state GO bonds and further requires that they are backed by a specific tax in addition to the pledge of the full faith and credit and taxing power of the State.

As of December 31, 2019, Oklahoma has no governmental purpose GO bonds outstanding.

Lease-Revenue Bonds

The second type of tax-supported debt issued by the state is lease-revenue bonds. These are primarily issued through the Oklahoma Capitol Improvement Authority (OCIA). Lease-revenue bonds are secured by lease contracts between state agencies occupying or utilizing the facilities and OCIA.

Authorizations for OCIA to issue debt are accompanied by language indicating the legislature's intent to appropriate sufficient funds to make lease payments.

As an infrequent issuer of GO bonds, the state relies more heavily on lease revenue bonds through the OCIA to finance capital projects. Currently there are twenty-two series of OCIA obligations outstanding with a principal balance on December 31, 2019 of $1.21 billion.

Master Lease Program

The third significant source of secondarily tax-supported debt is issued through the Oklahoma Development Finance Authority (ODFA) Higher Education Lease Programs. These obligations are primarily secured from revenue sources within higher education institutions but are backed by appropriations to the State Regents for Higher Education.

The Master Lease Program allows ODFA to issue obligations secured by a master lease with the Oklahoma Regents for Higher Education and sub-leases with participating state institutions of higher education. There are two separate programs: one for financing personal property and one for real property.

The bulk of outstanding debt under the Master Lease Program is through the real property program with a total of $709 million as of December 31, 2019.

The state's statutory debt service limit excludes master lease program issues because they are generally supported first by non-appropriated revenues and would only impact the general revenue fund in the event that pledged revenue sources were insufficient.

Lease-Purchase obligations

A smaller component of tax-supported debt is state agency lease-purchase financings. These lease-purchase arrangements are usually for equipment and small office buildings utilized by health and human services related agencies and the state ensures these are conducted in a financially secure manner by limiting the types of transactions that are eligible and requiring several layers of oversight and approval. As of December 31, 2019 the total outstanding balance for lease-purchase obligations is $7.7 million.

Constitutional authorization to issue GO debt

Oklahoma Industrial Finance Authority

The Oklahoma Industrial Finance Authority (OIFA) is also constitutionally authorized to issue GO bonds for the purpose of making industrial development loans. Their authority is limited to $90 million and their outstanding GO bond balance is $30 million as of December 31, 2019. Currently, all $30 million outstanding is held by the State Treasurer as an investment.

Security for GO bonds issued under this authorization are initially provided by loan repayments and then OIFA reserves. The state provides the ultimate guarantee.

Oklahoma Development Finance Authority

ODFA is constitutionally authorized to issue $100 million in GO bonds to provide support for the Credit Enhancement Reserve Fund (CERF) program.

The CERF program provides guarantee of debt service payments on approved economic development loans. The state guarantee lowers the cost of borrowing for state entities and has been a successful tool to spur economic development. ODFA has never issued debt under this authority.

However, the debt is backed by their authority and thus CERF issues represent a contingent liability to the state. As of December 31, 2019, the total outstanding CERF commitment is $26.8 million.

Oklahoma Water Resources Board

The Oklahoma Water Resources Board (OWRB) is constitutionally authorized to issue up to $300 million in GO bonds to provide credit enhancement for OWRB loan programs. OWRB has never issued bonds pursuant to their authority nor do they anticipate doing so in the future.

Summary of Outstanding Tax-Backed Obligations
As of December 31, 2019

Type of Obligation		Principal Outstanding
General Obligation -OIFA Loan Program	$	30,000,000
Oklahoma Capitol Improvement Authority		1,209,629,107
Oklahoma Development Finance Authority		
- Public Sales		88,235,077
-Master Equipment Lease Program		77,035,000
- Master Real Property Lease Program		709,670,000
- Subtotal ODFA	$	874,940,077
Direct Agency, Campus and Lease Obligations		8,374,978
Gross Tax-Backed Debt	**$**	**2,122,944,162**
Less Self-Supporting Bonds		(54,297,861)
Net Tax-Supported Debt	**$**	**2,068,646,301**

Revenue Bonds

Revenue bonds finance income-producing projects and are secured by a specified revenue source. These bonds do not represent a debt to the state and are not supported by the full faith, credit or taxing power of the state.

Historically, revenue bond programs have been the largest borrows in the state and since they derive their funding from fees or other sources of revenue they have a greater capacity to service debt than other state agencies.

The Oklahoma Turnpike Authority (OTA) is the largest revenue bond issuer in the state with $1.8 billion in bonds outstanding, the majority of which were issued to fund the Driving Forward program. OTA bonds are secured by toll road revenues.

As of December 31, 2019 the principal balance of outstanding from the state's largest revenue bond issuers is $6.24 million.

Authorized but Unissued Debt

In addition to outstanding obligations, Oklahoma has authorized the issuance of obligations that have not been issued. Some authorizations such as the OWRB's constitutional authorization to issue GO bonds are utilized as a credit enhancement for OWRB revenue bonds and are not anticipated to ever be issued.

However, most outstanding authorizations grant OCIA the authority to issue debt for specific state agency projects. These authorizations should be considered when examining that state's overall debt position and debt capacity.

As of January 1, 2020 there are two unissued OCIA authorizations totaling $93.6 million that are project to be issued over the next decade. Issuance of authorized obligations impact the state's overall bonded indebtedness and reduce capacity to issue new debt under the 5% statutory debt service limit. Therefore these should be included in any examination or projection of state debt.

State of Oklahoma's Largest
Revenue Bond Issuers Outstanding Debt
As of December 31, 2019

Issuer	Outstanding Debt
Oklahoma Turnpike Authority	$1,810,940,000
Grand River Dam Authority	941,365,000
Oklahoma Water Resources Board	915,550,000
University of Oklahoma Revenue Bonds*	870,565,000
Oklahoma Municipal Power Authority	594,980,000
Oklahoma State University Revenue Bonds	472,080,000
Oklahoma Housing Finance Agency**	336,765,194
University of Oklahoma HSC*	130,700,000
Oklahoma Student Loan Authority	169,466,346
Total:	**$6,242,411,540**

*Outstanding as of June 30, 2019

** Outstanding as of September 30, 2019

Debt shown in this table is secured solely by the specific pledged revenues of the respective programs. The State of Oklahoma has no legal obligation to pay debt service on these bonds.

Debt Service and Debt Service Projections

Debt Service Capacity limit

Oklahoma has imposed a statutory limit on total annual debt service payments from the General Revenue Fund. As stipulated in 62 O.S. Section 34.200, total annual debt service subject to the limit may not exceed 5% of the five year average of the of the general revenue fund.

In the event that the 5% calculation is exceeded the state is prohibited from incurring additional tax-supported debt until additional capacity is available. The calculation excludes debt issued under the master lease program, as these are primarily secured through fees or other non-appropriated revenue sources.

Linking debt service capacity to general revenue growth is intended to ensure debt service payments do not become a strain on the state budget and impact the ability to fund core government services. By averaging the general revenue fund over five years changes to debt capacity are smoothed reducing volatility that might otherwise occur when state revenues deviate from projections.

For fiscal year 2020 the maximum debt service subject to statutory limit is $286.9 million and current net tax-supported debt service is $142.9 million. And the statutory excess debt service capacity, $144 million is well below the limit providing lawmakers with adequate flexibility to utilize debt issuance to finance capital needs.

Projection Assumptions

The following assumptions were applied to the issuance of authorized but unissued debt and to

State of Oklahoma
Annual Debt Service Limit - FY'20

Fiscal Year	General Revenue	Five-Year Average
2015	5,726,699,000	
2016	5,204,842,000	
2017	5,044,394,000	
2018	5,854,400,000	
2019	6,859,924,396	5,738,051,879
Annual Debt Service Limit [1]		286,903,000
Current Net Tax-Supported Debt Service [2]		142,872,000
Additional Capacity		144,031,000

[1] 62 O.S. Section 34.200 limits Debt Service to 5% of 5-year average of certified general revenue
[2] Fiscal Year 2020 Debt Service subject to the limitation

estimate additional debt capacity for new issues of tax-supported debt over the next five years.

1. All debt will be issued as 20-year obligations
2. Interest (coupon) rate is assumed to be 5%
3. There will be no refunding's of outstanding debt
4. Authorized but unissued debt will be issued from FY'20-FY'24 in equal allotments
5. The General Revenue Fund is assumed to grow at a rate of 2% through FY'24
6. Net tax-supported debt service is debt service subject to the statutory 5% limit calculation

Projection of Available Par Debt Capacity FY'20-FY'24

Based upon the forgoing assumptions the estimated available par value debt capacity for FY'20 is $1.8 billion and additional debt service capacity is $144 million.

Debt service is projected to gradually increase until FY'22, leveling off in FY'23 and FY'24. The State's modest debt service will remain well below the 5% statutory limit over the next five years providing flexibility to issue additional debt.

Oklahoma is projected to maintain significant par value debt capacity over the next five years with available par value capacity approaching $1.9 billion in FY'24 if no additional debt is issued.

While significant debt capacity is projected to be available to state lawmakers in the coming years the issuance of debt should be considered in the context of a comprehensive capital plan and state funding priorities.

Projection of Debt Service Capacity

Debt service capacity projections provide a useful tool to estimate the state's ability to issue debt to meet capital needs in the future. Accounting for authorized but unissued debt illustrates the impact that the issuance of authorized but unissued debt will have on debt capacity and provides policymakers with information to evaluate future debt issuance.

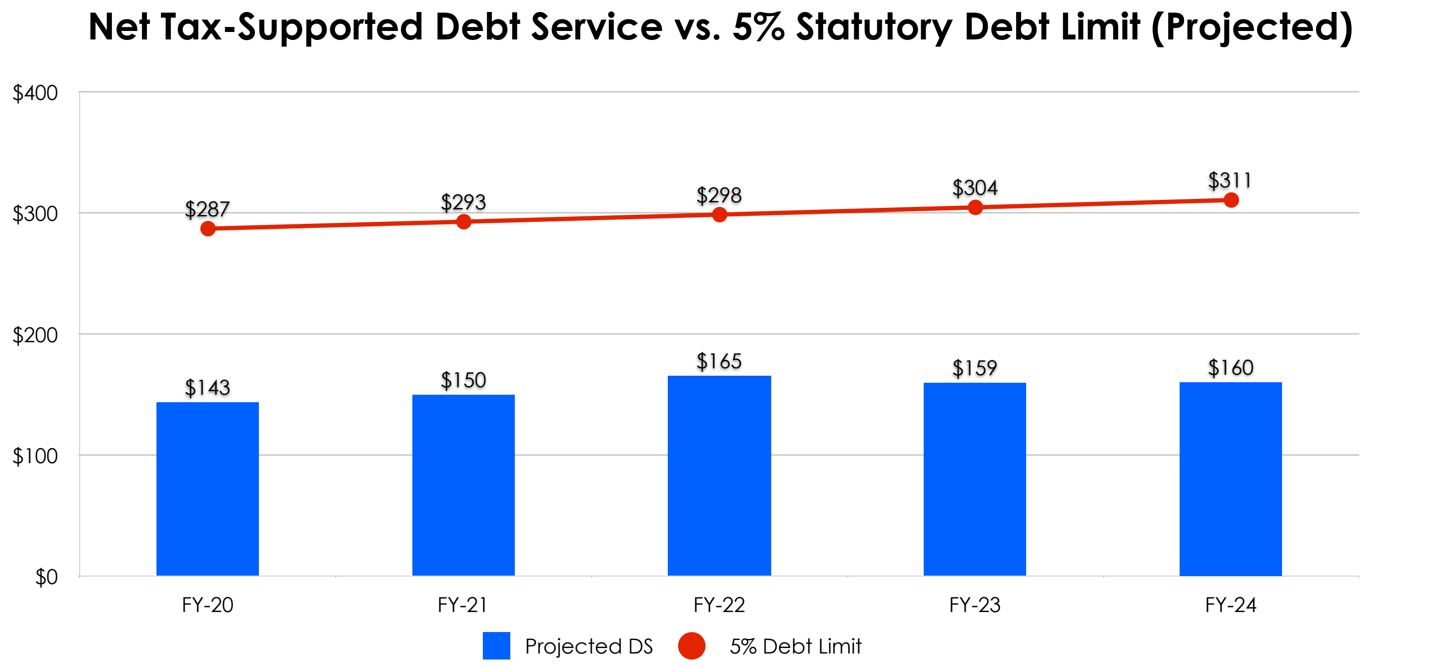
Debt service is projected to remain well below the 5% statutory debt limit through FY'24 providing significant additional debt capacity.

Beginning in FY'21 total net tax-supported debt service is projected to increase slightly and remain near 50% of capacity through FY'24.

(Projected) Debt Service and Debt Capacity FY'20-FY'24

Fiscal Year	5 Year Average General Revenue	Statutory 5% Debt Limit	Net-Tax Supported Debt Service*	Excess Debt Service Capacity	Excess Debt Capacity*
2020	5,738,051,879	286,902,594	143,450,488	143,452,106	1,811,263,964
2021	5,852,812,917	292,640,646	149,541,351	143,099,295	1,806,809,277
2022	5,969,869,175	298,493,459	165,231,906	133,261,553	1,682,595,368
2023	6,089,266,559	304,463,328	159,351,627	145,111,701	1,832,218,441
2024	6,211,051,890	310,552,594	160,085,465	150,467,129	1,899,837,488

*Assumes additional debt issued for 20 years at 5% interest rate

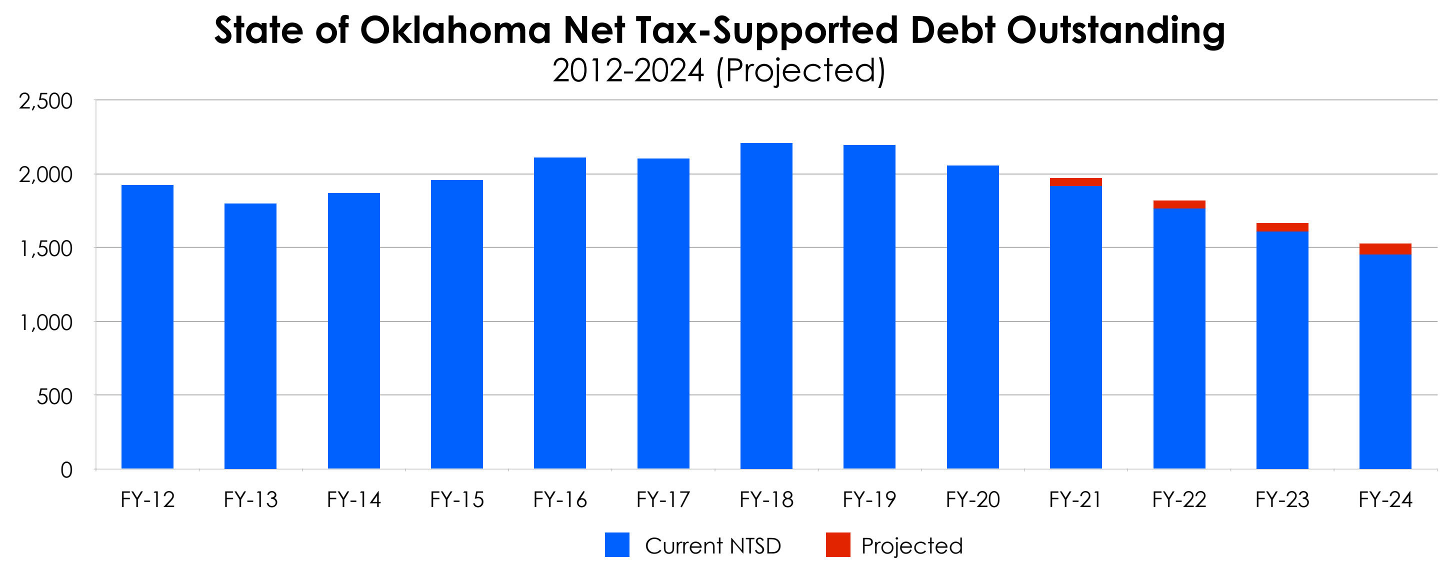


Projected Net-Tax Supported Outstanding Principal

As illustrated in the chart below, outstanding net tax-supported debt is projected to steadily decline through FY'24. The state has historically structured debt to be repaid quickly and based on projections outstanding debt in FY'24 will be at its lowest level in over a decade.

Sensitivity Analysis

Sensitivity analysis measures the degree to which fluctuations in state revenues and interest rates impact the capacity of the state issue debt for capital needs.



Fiscal Year	GR @ 90% of Projections	GR @ 95% of Projections	GR @ 100% of Projections
2020	-	-	-
2021	1,437,313,512	1,622,061,395	1,806,809,277
2022	-	-	-
2023	10,481,535	17,945,349	25,409,164
2024	59,930,579	63,774,813	67,619,047
Total Additional Debt Capacity	**$1,507,725,627**	**$1,703,781,558**	**$1,899,837,488**

If actual revenue differs from projections the level of additional debt capacity will be directly impacted, assuming all other factors remain constant. The effect on debt capacity based upon different revenue assumptions is summarized in the table below.

If general revenue collections are 90% of projections over the next five years, the state is projected to have $1.5 billion in par value debt capacity. When compared to an additional $1.9 billion under 100% general revenue projections, the 10% deviation from projections would reduce the state's additional par value debt capacity by $392.1 million or 21% over the next five years.

State debt capacity is projected to grow substantially over the next several years even if general revenue collections are below projections.

Debt capacity analysis assumes a 5% interest rate for the issuance of all authorized and unissued debt. The table below illustrates the effect of interest rates on debt capacity assuming general revenue is at 100% of projections.

Fiscal Year	Interest Rates @ 4%	Interest Rates @ 5%	Interest Rates @ 6%
2020	-	-	-
2021	1,967,812,084	1,806,809,277	1,664,525,937
2022	-	-	-
2023	27,673,347	25,409,164	23,408,233
2024	73,644,507	67,619,047	62,294,156
Total Additional Debt Capacity	**$2,069,129,938**	**$1,899,837,488**	**$1,750,228,325**

Debt Metric Comparison

A comparison to peer group medians provides context to Oklahoma's debt position. The selected peer group is composed of states contiguous with Oklahoma as well as states that are similar in population.

A few states rated "triple A" by all three major credit rating agencies were included as a benchmark.

Oklahoma's debt burden is very low as illustrated by the comparison.

By any metric Oklahoma ranks lower than the national median in net-tax supported debt and could modestly increase its debt burden to invest in capital projects without materially impacting its relative debt position to other states.

Oklahoma Net Tax-Supported Debt Comparative Ratios 2019

State	Ratings (S&P/Moody's/ Fitch)	Debt Per Capita	Net Tax-Supported Debt as % of Personal Income	Debt as % of State GDP	Net Tax-Supported Debt ($ thousands)	Debt Service Ratio (FY'18)
Alaska	AA/Aa3/AA-	$1,466	2.6%	2.09%	$1,081,100	1.3%
Arkansas	AA/Aa1/NR	$591	1.4%	1.44%	$1,782,522	1.9%
Colorado	AA/Aa1/NR	$353	0.9%	0.79%	$2,755,133	1.2%
Connecticut	A+/A1/A	$6,802	9.4%	9.15%	$24,299,690	13.5%
Georgia	AAA/Aaa/AAA	$996	2.3%	1.86%	$10,476,548	5.9%
Indiana	AAA/Aaa/AA+	$270	0.6%	0.51%	$1,804,332	1.1%
Kansas	AA-/Aa2/NR	$1,518	3.1%	2.76%	$4,420,345	3.7%
Louisiana	AA-/Aa3/AA-	$1,523	3.5%	2.98%	$7,099,162	4.8%
Mississippi	AA/Aa2/AAA	$1,782	4.9%	4.84%	$5,322,398	7.8%
Missouri	AAA/Aaa/AAA	$487	1.1%	0.98%	$2,983,433	3.4%
New Mexico	AA/Aa2/NR	$1,192	3.0%	2.65%	$2,498,350	5.0%
North Dakota	AA+/Aa1/NR	$131	0.3%	0.19%	$99,326	0.3%
Oklahoma	AA/Aa2/AA	$320	0.7%	0.67%	$1,260,897	1.7%
Oregon	AA+/Aa1/AA+	$1,921	4.0%	3.65%	$8,354,427	5.3%
Texas	AAA/Aaa/AAA	$389	0.8%	0.68%	$11,176,052	2.6%
Utah	AAA/Aaa/AAA	$792	1.9%	1.52%	$2,502,822	4.1%
National Median		**$1,068**	**2.2%**	**2.06%**	**$4,146,966**	**4.1%**

The information contained in the comparison is from Moody's Investors Service 2019 state debt medians report.

Pension Liability Discussion

Pension liabilities represent long-term obligations of the State that compete with other priorities for limited state resources. The net liabilities of the state's seven pension system far exceed the bonded indebtedness of the state and as such must be included in any discussion of the state's debt profile.

In FY'11 the combined funded status of Oklahoma's seven retirement systems was 55.9%, prompting legislative changes to improve the fiscal health of the systems. Reforms included requirement that cost of living adjustments be fully funded prior to enactment and increasing the age at which some participants are eligible to retire. These reforms contributed to the enhanced funding status of the state's pension systems which, in aggregate, improved to 81% in FY'18.

Five of the state's seven pension systems funded status exceed the 80% benchmark. However, the state's largest plan, the Teachers Retirement System, as well as the Firefighters System remain below the benchmark at 73% and 68% respectively. Despite recent improvements, commitment to making actuarially determined contributions, strong plan administration and prudent management of benefit adjustments will be necessary to sustain the progress.

Utilizing the most recent data available, fiscal year 2017, to compare pension funding across states Pew Charitable Trusts ranks Oklahoma's pension funded status 18th among states. According to the 2017 comparison Oklahoma's pension systems had an aggregate funded status of 78%, well above the national aggregate of 69%.

In 2009, Oklahoma's pension funded status ranked 48th in the nation with a 57% aggregate funded status. According to The Pew Charitable Trust Oklahoma's pension status improved by 22% over the past decade the largest improvement by any state during the period.

The aggregate funded status for fiscal year 2019 at 81% exceeds the 80% benchmark utilized by rating agencies to indicate a strong pension funded ratio.

The improved pension funded status follows reforms to requirements to grant benefit increase, combined with strong investment performance and consistently

Oklahoma Public Pensions

Funded Status by Fiscal Year

	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19
OPERS	66.0%	80.7%	80.2%	81.6%	88.6%	93.6%	93.2%	94.5%	97.7%	98.6%
Judges	81.3%	96.3%	95.7%	97.3%	105.9%	110.9%	110.8%	112.6%	114.8%	111.9%
Firefighters	53.4%	63.7%	60.9%	58.8%	62.1%	65.1%	65.9%	65.4%	68.1%	70.8%
Police	74.9%	93.0%	90.2%	89.3%	94.6%	98.2%	98.7%	101.8%	102.8%	102.5%
Teachers	47.9%	56.7%	54.8%	57.2%	62.2%	66.6%	65.7%	70.4%	72.9%	72.4%
Law	73.6%	75.9%	78.4%	81.4%	88.6%	87.8%	87.4%	88.5%	90.0%	89.6%
All systems	56.0%	66.6%	64.9%	66.5%	72.5%	76.0%	75.4%	78.6%	81.2%	81.3%

making actuarial determined contributions to the plans. In 2016, Oklahoma ranked 8th in plan contributions according to PEW.

Despite recent improvements to the pension systems it is prudent to consider the funded status represents a snapshot in time that can be impacted by changes in investment performance, plan changes and actuarial assumptions.

According to GASB 67 actuarial reports generated for the Oklahoma Public Employees Retirement System and the Oklahoma Teachers Retirement System if the assumed rate of return is lowered by 1% a 10% increase in actuarial pension liabilities would occur.

Oklahoma has made significant progress in reducing the unfunded accrued actuarial liability of the state's retirement systems in recent years yet pension obligations continue to represent one of the state's largest long term liabilities and will require sound fiscal management to avoid placing a strain on the state budget.

As state policymakers evaluate the debt position of the state and when to utilize debt to finance capital needs, pension obligations should be considered as a long term obligation that competes with other priorities for limited resources.

State Credit Review

Credit ratings are the assessments made by ratings agencies of a governmental entity's ability and likelihood to repay debt in a timely manner. Credit ratings are an important factor in the public credit markets and can influence the state's cost of borrowing.

Oklahoma general obligation debt rating was downgrade from AA+ to AA by Standard and Poor's and Fitch Ratings Agency in 2017. Credit analyst have long warned that a misalignment between recurring revenues and expenditures creating an ongoing budget gap is a credit risk that could lead to a downgrade. The decreased levels of reserve funds and weakness in the energy sector were also contributors to the rating downgrade.

However, the state has been on a positive trajectory over the past two years. Consecutive large deposits in the constitutional reserve fund and the adoption of a structurally balanced budget for FY'19 and FY'20

Oklahoma Tax-Supported Issuer
Bond Ratings
As of December 31, 2019

Tax-Supported Bonds	Fitch Ratings	Moody's*	S&P
General Obligation Bonds (Implied)	AA	Aa2	AA
OCIA Lease Revenue Bonds	AA-	Aa3	AA-
ODFA Master Lease Program	AA-	Aa3	AA-

*Moody's has a positive outlook for the State's Credit have been positively received by rating agencies. In October of 2019, Moody's Investor Service assigned a "positive outlook" to Oklahoma's credit rating. Noting that further improvements in the state's reserve position and sustained practice of adopting structurally balanced budgets could lead to a rating upgrade.

Important Debt Management Structures and Practices

Oklahoma has several positive debt management practices and structures in place that credit analyst consistently cite as credit strengths, including low debt burden, below average pension liabilities, and an effective constitutional reserve fund. As of the date of this report, Standard and Poor's and Fitch Ratings have assigned a stable outlook to the state's credit rating while Moody's Investor Services has assigned a positive outlook.

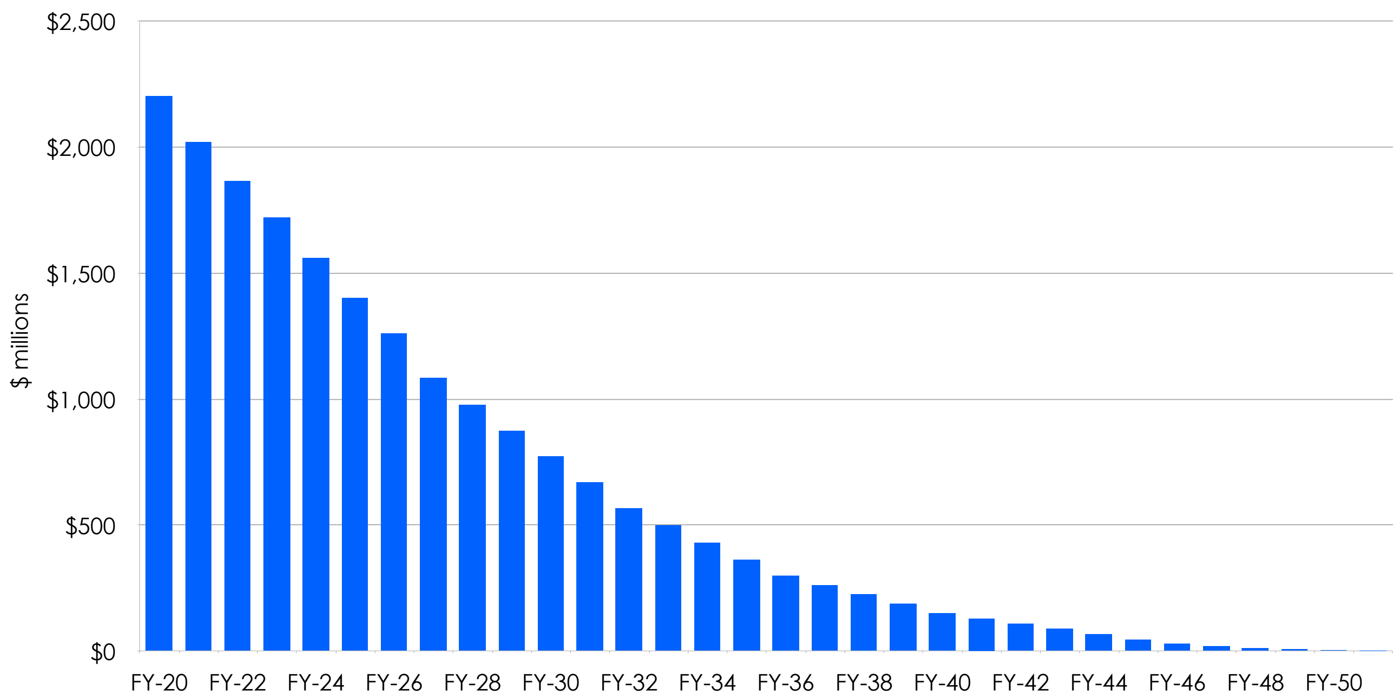
Debt Retirement

One practice that has allowed Oklahoma to maintain a low debt burden is quick repayment. As illustrated in the chart, 63% of currently outstanding debt will be repaid within 10 years, and 92% within 20 years. The rate of principal redemption provides considerable flexibility in debt structuring and marketing and is a credit positive practice.

Constitutional Reserve Fund

Oklahoma's constitutional "rainy day" fund is an important stabilization tool and provides additional support to the state budget during periods of weak financial performance.

State of Oklahoma Tax-Backed Debt Principal Outstanding (as of December 31, 2019)



The rainy day fund consists of deposits of all general revenue funds collected in excess of the 100% certified estimate and can only be accessed when specific criteria are met.

As illustrated by the chart, Oklahoma's rainy day fund has been a positive structural feature allowing the state to build significant reserves in positive economic conditions and use those reserves to manage budgetary shortfalls during periods of weakness.

A $358 million deposit at the conclusion of FY'18 was the largest deposit in the history of the fund and significantly improved the state's reserve position. This deposit was followed by additional $354 million in FY'19 which is the first time consecutive deposits have been made since FY'11-FY'12. The current balance of the rainy day fund is $806 million and when combined with a $200 million deposit in the Revenue Stabilization Fund in the FY'20 budget the state's overall reserve position is in excess of $1 billion.

Conclusion

The state's credit has stabilized with improved budget practices and strong economic performance. The state has maintained a low debt burden, made significant improvements to pension systems, and when combined with structural features in the budgeting process, the credit outlook is positive.

The state has never been in a better fiscal position to weather natural fluctuations in economic conditions.