STATE OF OKLAHOMA

DEBT REPORT

2020

PREPARED BY
THE OFFICE OF THE STATE TREASURER
DEPARTMENT OF DEBT MANAGEMENT

STATE OF OKLAHOMA | 2300 N. Lincoln Blvd. Suite 217

Contents

Introduction

In addition to the Comprehensive Annual Financial Report, the State Debt Report (“Report”) provides the governor and Legislature with an additional tool to contextualize state debt and assess the impact of debt issuance on the state’s fiscal position. The Report assists this endeavor by providing information and analysis necessary for policymakers to make informed and prudent decisions regarding debt financing of capital projects.

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 must be approved by a vote of the people and 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 (62 O.S. Section 34.200).

Due in part to these limits, Oklahoma’s net tax-supported debt and debt service metrics rank amongst the lowest in the nation and well below both the national and the regional averages.

Voters have not approved a general obligation bond issuance since 1992 and the state has no pure general obligation debt outstanding.

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.

The Report projects the state’s debt position under various scenarios to provide context and demonstrate how changes in market conditions or revenue collections can impact the affordability of new debt issuance.

Additional debt capacity will be available over the next five fiscal years assuming conservative growth in general revenue and issuance of all authorized debt. For fiscal year 2021 the state has approximately $1.75 billion in excess par value debt capacity.

Pension liabilities represent the state’s largest outstanding obligation and are included to present a more comprehensive examination of the state’s fiscal position. The State’s aggregate unfunded accrued liability currently exceeds $11 billion, far larger than the state’s bond indebtedness. However, Oklahoma’s commitment to funding pension contributions and reforms implemented over the past decade have significantly improved the funded status. The state has minimal other post-employment benefits.

The state’s credit rating remained unchanged during 2020 with S&P, Fitch and Moody’s Investor Services all assigning the equivalent of a AA rating to the state with a Stable Outlook from Fitch and Moody’s. However, on May 11, 2020 S&P revised the outlook on the state’s credit from stable to negative. A negative outlook reflects a one-in-three chance that S&P will take action to downgrade the state’s credit rating in the next 12 months.

State Debt Profile

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

Tax-Supported and Tax-Backed Debt

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. The Oklahoma Building Bonds Commission was created to issue general obligation bonds following voter approval of a $350 million authorization in 1992. The final payment of these bonds was made on July 15, 2018. As of December 31, 2020, the state had no governmental purpose G.O. bonds outstanding.

Appropriation Lease-Revenue Bonds (Oklahoma Capitol Improvement Authority)

The second type of tax-supported debt issued by the state is appropriation backed lease-revenue bonds. These are primarily issued through the Oklahoma Capitol Improvement Authority (OCIA). Lease-revenue bonds are secured by use and lease agreements 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 annual lease payments. As an infrequent issuer of GO bonds, the state relies heavily on OCIA to finance capital projects. Currently there are 23 series of OCIA obligations outstanding with a principal balance on December 31, 2020 of $1.34 billion.

Master Lease Program

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

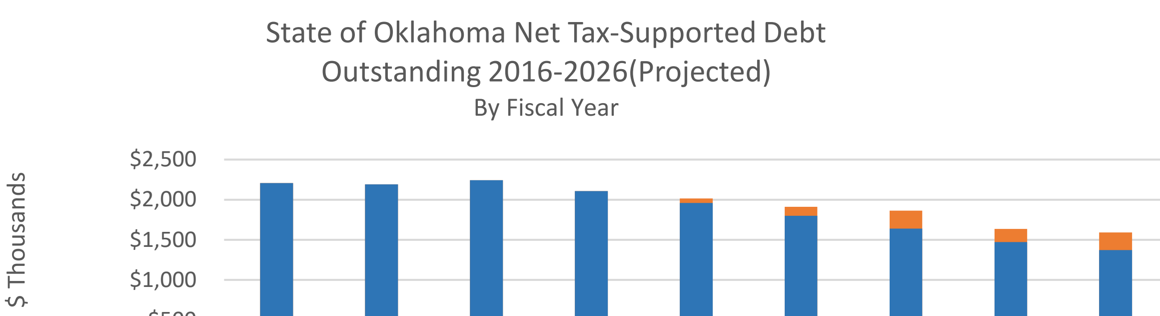
The Master Lease Program allows ODFA to issue obligations secured by a master lease with the Oklahoma State Regents for Higher Education and subleases with participating state institutions of higher education. There are two separate programs: one for financing personal property and one for real property. The bulk of outstanding debt is through the real property program with a total of $661 million as of December 31, 2020.

The state's statutory debt service limit excludes master lease program debt 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.

Summary of Outstanding Tax-Backed Obligations As of December 31, 2020		
Type of Obligation		Principal Outstanding
General Obligation -OIFA Loan Program	$	30,000,000
Oklahoma Capitol Improvement Authority		1,341,262,059
Oklahoma Development Finance Authority		
- Lease Purchase Obligations		67,383,537
-Master Equipment Lease Program		59,138,000
- Master Real Property Lease Program		661,905,000
- Subtotal ODFA	$	788,426,537
Direct Agency, Campus and Lease Obligations		6,887,430
Gross Tax-Backed Debt	**$**	**2,166,576,026**
Less Self-Supporting Bonds		(41,089,536)
Net Tax-Supported Debt	**$**	**2,125,486,490**

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, 2020, the total outstanding balance for lease-purchase obligations was $6.4 million.



	2018	2019	2020	2021	2022	2023	2024	2025	2026
(Projected)	$2,207	$2,193	$2,244	$2,107	$2,015	$1,911	$1,862	$1,637	$1,591
Outstanding NTSD	$2,207	$2,193	$2,244	$2,107	$1,960	$1,801	$1,642	$1,472	$1,371

Contingent Liabilities

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. The Oklahoma Constitution limits the amount of general obligation debt that can be outstanding at any time for this purpose to $90 million. Security for OIFA general obligation bonds is provided initially by the loan repayments from the private borrower and then by OIFA reserves. If these sources are insufficient to cover debt service, the state would step in and make the required payment.

The state has never had to utilize its own funds to meet an obligation under this program. The outstanding principal balance of OIFA general obligation bonds, as of December 31, 2020, was $30 million. Currently, all $30 million outstanding is held by the State Treasurer as an investment.

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, 2020, the total outstanding CERF commitment is $18.4 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.

Self-Supporting Revenue Bond Programs

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 borrowers in the state and since they derive their funding from fees, or other sources, they have a greater capacity to service debt.

The Oklahoma Turnpike Authority (OTA) is the largest revenue bond issuer in the state with $1.7 billion 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, 2020, the principal balance of outstanding from the state's largest revenue bond issuers is $6.35 billion.

Outstanding Debt Self-Supporting Revenue Bond Programs As of December 31, 2020	
Issuer	**Outstanding Debt**
Oklahoma Turnpike Authority	$1,721,165,000
Grand River Dam Authority	903,860,000
Oklahoma Water Resources Board	1,173,240,000
University of Oklahoma Revenue Bonds*	878,400,000
Oklahoma Municipal Power Authority	570,955,000
Oklahoma State University Revenue Bonds	493,555,000
Oklahoma Housing Finance Agency**	346,888,152
University of Oklahoma HSC*	125,700,000
Oklahoma Student Loan Authority	138,402,154
Total:	**$6,352,165,306**

*Outstanding as of June 30, 2020

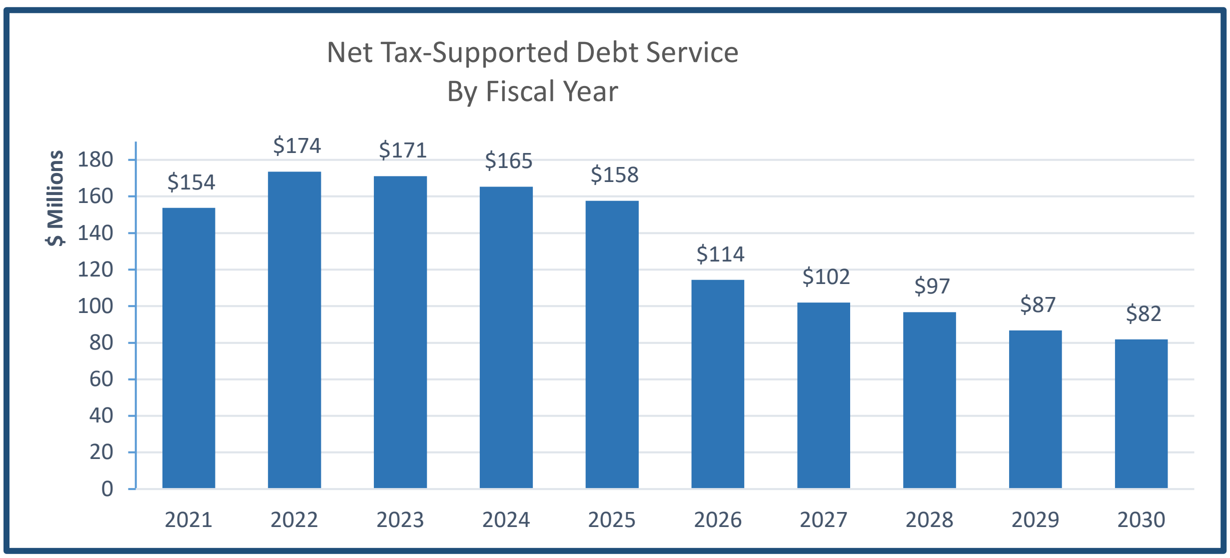
**Outstanding as of September 30, 2020

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.

Annual Debt Service Requirements

Net-tax supported debt service primarily consists of debt issued through the OCIA to finance state facilities and highway projects. A few agencies have tax-supported debt issued through the ODFA.

Net-tax supported debt represents almost 2.3% of appropriations from the general revenue fund in FY'21. The state's current debt service requirements will sharply increase in FY'22 and then gradually decline before falling significantly in FY'26. This trajectory provides policymakers with the flexibility to issue and structure additional debt in the coming years without substantially increasing the baseline appropriation requirements.



Debt Service Capacity

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 the 5% calculation is exceeded the state is prohibited from incurring additional tax-supported debt until capacity is available. The calculation excludes debt issued under the master lease program.

State of Oklahoma Annual Debt Service Limit - FY'21				
Fiscal Years		**Average General Revenue**		**Debt Service Limit**
2016-2020	$	5,847,338,012	$	292,367,000
Current Net Tax-Supported Debt Service [2]				153,759,000
Additional Debt Service Capacity				138,608,000

[1] 62 O.S. Section 34.200 limits Debt Service to 5% of 5-year average of certified general revenue

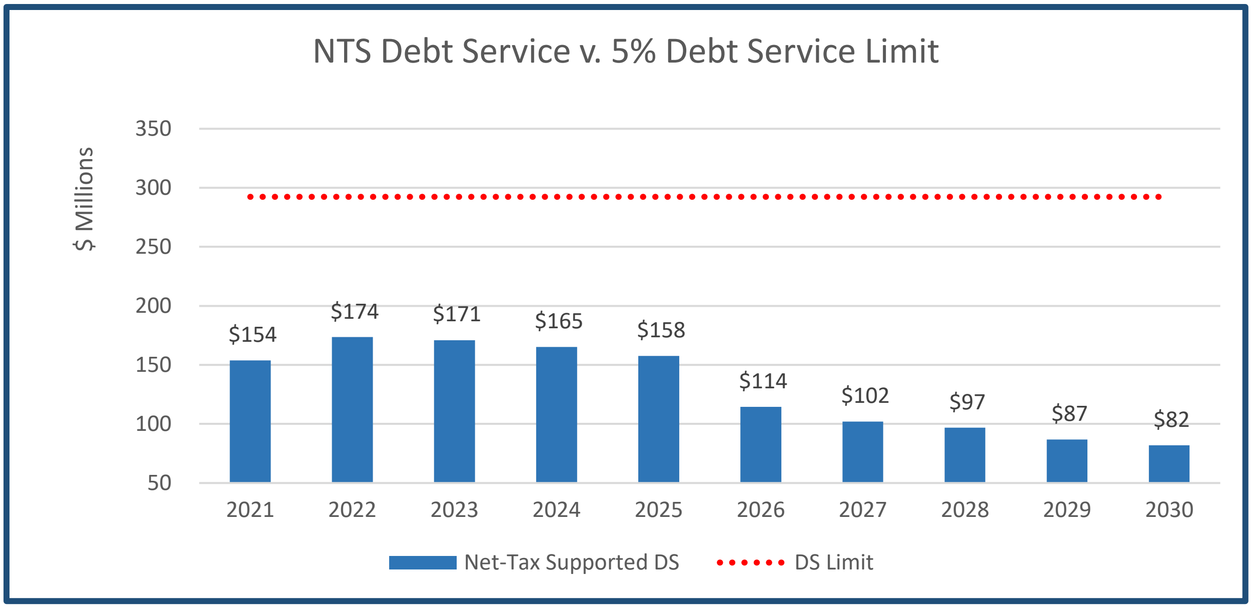
[2] Fiscal Year 2021 Debt Service subject to the limitation

For fiscal year 2021, the maximum debt service limit is $292.4 million and current net tax-supported debt service is $153.8 million leaving an excess debt service capacity of $138.6 million. Debt service requirements for fiscal year 2021 are well below the 5% limit, at 2.6% of the general revenue average, leaving almost half of the state’s capacity available to support future debt issuance. However, debt capacity should be treated as a limited resource that does not replenish quickly once utilized. Most bonds are structured to have a term to maturity of 20 or more years, so once capacity is used it may be a significant period of time before it is available again.

Projected 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 provides policymakers with information to evaluate proposed debt issuance.

Current debt service is projected to remain well below the 5% statutory limit through FY’25. Beginning in FY’22 total net tax-supported debt service will increase and remain near 50% of capacity before slightly declining and then dropping significantly in FY’26 through FY’30.



The following assumptions were applied to the issuance of authorized but unissued debt and to 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'21-FY'25 in equal allotments
5. The General Revenue Fund is assumed to grow at a rate of 2% through FY'25
6. Net tax-supported debt service is debt service subject to the statutory 5% limit calculation

Projection of Available Par Debt Capacity FY'21-FY'25

Based upon the forgoing assumptions the estimated available par value debt capacity for FY'21 is $1.75 billion and additional debt service capacity is $138.6 million. The State's modest debt service is projected to remain well below the 5% statutory limit. Oklahoma is projected to maintain significant par value debt capacity over the next five years with available par value capacity approaching $1.86 billion in FY'25, 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. Since debt capacity is limited and issuance of new debt is usually associated with a commitment of debt service for a generation, it is important that policy makers carefully evaluate issuance.

(Projected) Debt Service and Debt Capacity FY'21-FY'25					
Fiscal Year	General Revenue	Statutory 5% Debt Limit	NTSD Service*	Excess Debt Service Capacity	Excess Par Debt Capacity*
2021	5,847,338,012	292,366,901	153,759,000	138,607,901	1,750,099,755
2022	6,086,088,063	304,304,403	179,004,989	125,299,414	1,582,063,304
2023	6,382,522,084	319,126,104	181,941,916	137,184,189	1,732,123,592
2024	6,543,061,161	327,153,058	181,602,086	145,550,972	1,837,764,799
2025	6,529,123,740	326,456,187	178,820,640	147,635,547	1,864,085,185

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

Sensitivity Analysis

Sensitivity analysis measures the degree to which fluctuations in state revenues and interest rates impact the projected capacity of the state to issue debt for capital needs. 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 projected capacity will be $1.45 billion in par value debt. When compared to an additional $1.86 billion under 100% general revenue projections, the 10% deviation from projections would reduce the state's additional par value debt capacity by $412.2 million or 22% over the next five years, while a 5% deviation would reduce additional par value debt capacity by $206.1 million or 9% over the next five years.

Fiscal Year	GR @ 90% of Projections	GR @ 95% of Projections	GR @ 100% of Projections
2021	1,750,099,755	1,750,099,755	1,750,099,755
2022	(552,259,182)	(360,147,816)	(168,036,451)
2023	131,346,019	140,703,153	150,060,288
2024	95,506,164	100,573,686	105,641,207
2025	27,200,273	26,760,329	26,320,386
Total Additional Debt Capacity	**(298,206,726)**	**(92,110,648)**	**113,985,430**

State debt capacity is projected to grow modestly over the next several years and if general revenue collections are below projections capacity could contract reducing the flexibility to utilize debt.

Policymakers should be judicious in the utilization of debt to preserve capacity recognizing that additional capacity may not materialize in the event that the economy and associated revenue collections do not experience growth. 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%
2021	1,750,099,755	1,750,099,755	1,750,099,755
2022	26,586,499	(168,036,451)	(292,621,406)
2023	163,476,957	150,060,288	138,243,280
2024	115,086,432	105,641,207	97,322,131
2025	28,673,653	26,320,386	24,247,697
Total Additional Debt Capacity	**$333,823,541**	**113,985,430**	**(32,808,297)**

Comparison of Debt Ratios

When compared to other states, Oklahoma has a very low debt burden. The most recent Credit Opinion on the state, written by Moody's Investors Service on April 1, 2020, notes that, "Oklahoma's debt levels are low and have generally been declining." The latest Moody's debt median report ranks Oklahoma 43rd in both net tax-supported debt per capita and as a percent of personal income. The state's net-tax supported debt as a percentage of state GDP ranks 42 out of 50.

A comparison to peer group medians provides additional 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.

State	Ratings (S&P/Moody's/Fitch)	Debt Per Capita	NTSD as % of Personal Income	Debt as % of State GDP	NTSD Debt ($ thousands)	Ratio (FY'19)
Alaska	AA/Aa3/AA-	$1,229	2.00%	1.62%	$1,081,100	1.3%
Arkansas	AA/Aa1/NR	$1,081	2.40%	2.45%	$3,263,055	1.9%
Colorado	AA/Aa1/NR	$603	0.89%	0.89%	$3,472,826	1.2%
Connecticut	A+/A1/A	$6,637	8.40%	8.28%	$23,664,466	14.7%
Georgia	AAA/Aaa/AAA	$971	2.00%	1.67%	$10,310,529	5.4%
Indiana	AAA/Aaa/AA+	$251	0.50%	0.45%	$1,804,332	1.1%
Kansas	AA-/Aa2/NR	$1,518	2.80%	2.51%	$4,344,866	4.3%
Louisiana	AA-/Aa3/AA-	$1,545	3.20%	2.72%	$7,183,553	4.7%
Mississippi	AA/Aa2/AAA	$1,901	4.80%	4.76%	$5,658,952	6.4%
Missouri	AAA/Aaa/AAA	$464	0.90%	0.98%	$2,850,105	3.3%
New Mexico	AA/Aa2/NR	$1,117	2.50%	2.25%	$2,342,230	4.8%
N. Dakota	AA+/Aa1/NR	$64	0.09%	0.09%	$48,963	0.2%
Oklahoma	AA/Aa2/AA	$337	0.65%	0.65%	$1,332,715	1.6%
Oregon	AA+/Aa1/AA+	$2,018	3.80%	3.38%	$8,512,887	4.8%
Texas	AAA/Aaa/AAA	$379	0.58%	0.58%	$10,994,229	2.5%
Utah	AAA/Aaa/AAA	$720	1.50%	1.22%	$2,307,166	3.7%
National Median		**$1,071**	**2.0%**	**1.91%**	**$3,864,531**	**3.8%**

The information contained in the comparison is from Moody's Investors Service 2020 state debt medians report.

Credit Ratings

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 markets and can influence the state's cost of borrowing.

Oklahoma's general obligation credit rating has remained at the AA/Aa2 level since Fitch Ratings and Standard & Poor's lowered the state's credit rating from AA+ in 2017. Since that time, all three credit rating agencies have maintained the AA rating for the state's credit.

Oklahoma General Obligation Credit Ratings	RATING	OUTLOOK
Moody's Investor Services	Aa2	Stable
Standard and Poor's	AA	Negative
Fitch Ratings	AA	Stable

Overview of Credit Factors

Credit ratings include both quantitative and qualitative measures to evaluate an issuers ability to meet debt obligations. There are five broad categories that make up a rating; governance, economy, financial management, budgetary performance and debt. While each rating agency has its own methodology, all use these components to evaluate state credits.

Governance

Governance focuses directly on the legal and constitutional ability of the state to address changing financial circumstances, and the mechanisms available to policy makers to control expenditures and raise revenues. Examples of governance include; constitutional budget requirements, statutory debt limits, and flexibility to raise revenue and reduce expenditures.

Financial Management

Financial management focuses on the state budget and revenue management. This includes an analysis of how the state budget is developed, the process and accuracy of revenue forecasting, how reserve funds are managed, and the long-term capital planning utilized by the state.

Economy

The cornerstone of the state's credit rating is the state economy. This factor focuses on the measurable aspects of the state economy. The state's gross domestic product, unemployment rate, per capita income and population trends are all include in an analysis of the state's economy relative to peers. An additional factor that is particularly relevant to Oklahoma is economic diversity across industries. The state has historically had heavy concentration in the energy sector that has been quite beneficial but requires active management to mitigate the inherent volatility of commodity prices.

Budgetary Performance

The state's budget management relative to its economic base is another important factor. This factor focuses on actual revenue collections and trends in revenue, the reserve position of the state relative to the overall budget, cash flow management practices, and the state's response to periods of economic stress.

Debt & Liabilities

Rating agencies take a holistic approach to liabilities. Debt includes not only the outstanding bonded indebtedness but also unfunded pension liabilities and other post-employment benefits. This factor incorporates all the state's long-term obligations and the degree to which those obligations represent a burden on the state budget.

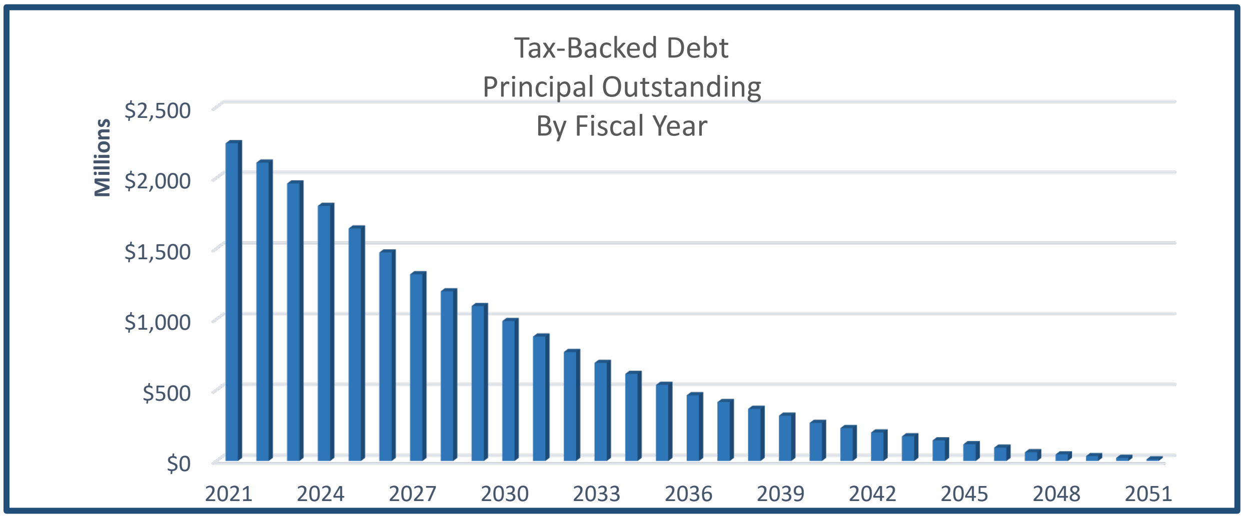
Credit Strengths

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, effective reserve funds, and strong governance. As discussed in the Comparison of Debt Ratio section of this report, Oklahoma has amongst the lowest debt burdens of any state. The state's historically conservative use of debt to finance capital projects has been the foundation of its strong credit rating.

Debt Retirement

One practice that has allowed Oklahoma to maintain a low debt burden is rapid repayment of principal. As illustrated in the chart, 63% of currently outstanding debt will be repaid within 10 years, and 90% within

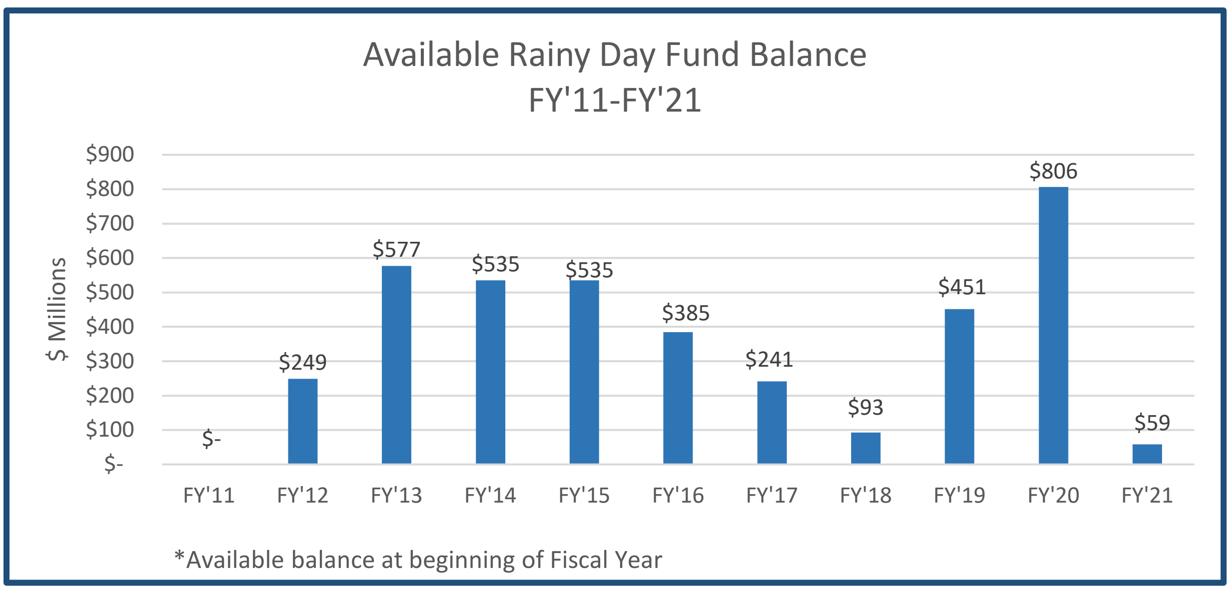
20 years. When the state issues debt it is generally with level debt service amortized over 20 years or less. This rate of principal redemption provides considerable flexibility in debt structuring and marketing and is a credit positive practice.



Reserves

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. 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 during periods of economic growth and provide stability when budgetary shortfalls occur 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. The strong growth was followed by significant draws on the fund to address a revenue failure in FY'20 and budget shortfalls in FY'21. The available balance of the rainy day fund at the beginning of FY'20 was $806 million, today the available balance is $58.7 million.

Revenue Stabilization Fund

Established in 2016, the Revenue Stabilization Fund (RSF), is designed to mitigate the effects of the state's most volatile revenue sources, Corporate Income Tax (CIT) and Gross Production Tax (GPT). The RSF receives deposits from either direct appropriations from the legislature or when the Board of Equalization determines that collections from CIT or GPT exceed their five-year averages. The funds that accumulate in the RSF may be accessed by the Legislature in cases of a revenue failure or a projected decline in revenue collections in the upcoming fiscal year.

The RSF's fist deposit came in the form of $200 million appropriation in the FY'20 budget. The current available balance in the RSF is $171.3 million.

Strong Governance

Oklahoma has several credit positive practices formalized in the state constitution and statute. The state's balanced budget requirement, Article X Section 23, includes a limitation on expenditures to 95% of revenue projections and any collections above the estimate are deposited into the state's rainy day fund. The state also has a statutory debt limit which ensures debt service does not unduly burden the state budget.

Credit Challenges

While the state maintains a strong credit rating there are certain challenges that rating agencies consistently cite in their published opinions. The largest challenge to further improving the state's credit rating is the economic concentration in the energy industry. Diversification of the state's economy to reduce the concentration and inherent revenue volatility driven by commodity prices would significantly improve the state's credit fundamentals.

The state's history of adopting structurally imbalanced budgets and relying on one-time sources of revenue to fund ongoing expenditures is another significant challenge. However, recent budgets in FY'19 and FY'20 were structurally balanced demonstrating important progress. In the wake of the COVID-19 pandemic, a return to structural balance in FY'22 and beyond will be a key rating factor.

A third challenge is the state's constitutional requirement of a supermajority to raise revenue. State Question 640, which implemented this provision, has been successful at limiting tax increases but has also made balancing revenues and expenditures more difficult. However, the state did overcome the supermajority requirement in 2018 demonstrating that revenues could be raised in periods of necessity.

Recent Credit Developments

In fiscal years 2018 and 2019 the state strengthened its credit position by adding significant deposits in the Constitutional Reserve Fund and Revenue Stabilization Fund, building the state's reserve position to $1 billion. When combined with structurally balanced fiscal year 2019 and 2020 budgets, the state's position was rapidly improving. This improvement was recognized by Moody's Investor Service, which placed a positive outlook on the state's credit rating in late 2019 signaling an upgrade was possible in the near future.

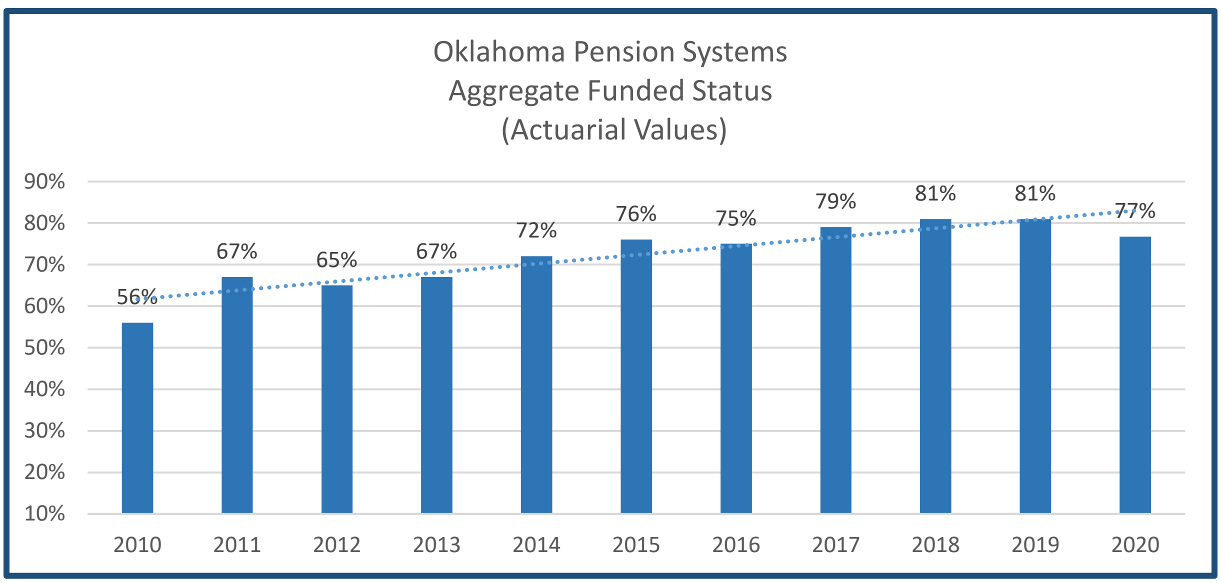
However, calendar year 2020 brought unprecedented pressures on the state's economy and revenue collections as the COVID-19 pandemic swept across the globe. The strong reserve position built in fiscal year 2018 and 2019 was utilized to prevent a revenue failure in fiscal year 2020 as the Legislature prevented state agencies from experiencing significant reductions in the final months of the fiscal year.

The economic uncertainty from the pandemic and weakness in the energy sector combined with a structurally imbalanced fiscal year 2021 budget and significantly diminished reserve position led Standard and Poor's to place the state's credit rating on a negative outlook early in the pandemic. The negative outlook reflects a one-in-three probability that the state's credit rating will be downgraded in calendar year 2021.

Despite these challenges the state ended calendar year 2020 on a positive note as unemployment levels improved and revenue collections for fiscal year 2021 were better than projected. Further, energy prices showed signs of recovery that if sustained will stabilize the state's economy. These positive trends should create an environment conducive to developing a structurally balanced budget for fiscal year 2022.

Pension Obligations

Pension liabilities represent long-term obligations of the State that compete with other priorities for limited resources. In recent years, rating agencies have increased their focus on the impact of defined contribution plans on state credit ratings. Some states received credit downgrades due to their outsized pension liabilities. Rating agencies have also questioned investment return assumptions utilized by pension systems and how those assumptions distort the actuarially determined contribution and liabilities over the long-term. Oklahoma has made important progress toward reducing and containing its pension liabilities over the past decade and has turned what was once a significant weakness of the state's credit into a positive.



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 enacting a statutory 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.

Utilizing the most recent data available, fiscal year 2018, to compare pension funding across states Pew Charitable Trusts ranks Oklahoma's pension funded status 16th. According to the Pew comparison Oklahoma's pension systems had an aggregate funded status of 81.3%.

State	Liability (Total Pension Liability)	Assets (Plan Net Position)	Pension Debt (Net Pension Liability)	Funded Ratio	Funding Rank
S. Dakota	$12,233,387	$12,235,719	-$2,332	100.0%	1
New York	$216,315,013	$212,076,811	$4,238,202	98.0%	2
Tennessee	$50,135,354	$48,996,019	$1,139,335	97.7%	3
Wisconsin	$100,294,768	$96,737,081	$3,557,687	96.5%	4
Washington	$98,658,961	$92,610,488	$6,048,473	93.9%	5
Idaho	$18,138,483	$16,757,951	$1,380,532	92.4%	6
Nebraska	$15,783,762	$14,256,785	$1,526,977	90.3%	7
N. Carolina	$110,145,689	$97,635,765	$12,509,924	88.6%	8
Utah	$36,708,181	$31,259,522	$5,448,659	85.2%	9
Delaware	$11,825,432	$10,064,363	$1,761,069	85.1%	10
Maine	$17,197,897	$14,532,362	$2,665,535	84.5%	11
Iowa	$39,536,464	$33,054,838	$6,481,626	83.6%	12
W. Virginia	$18,923,489	$15,566,369	$3,357,120	82.3%	13
Oregon	$84,476,100	$69,327,500	$15,148,600	82.1%	14
Minnesota	$83,611,446	$68,422,729	$15,188,717	81.8%	15
Oklahoma	**$39,635,039**	**$32,237,217**	**$7,397,822**	**81.3%**	**16**
Arkansas	$34,657,689	$28,149,299	$6,508,389	81.2%	17
Georgia	$115,086,038	$92,155,238	$22,930,800	80.1%	18
Florida	$202,133,975	$161,429,344	$40,704,631	79.9%	19
Virginia	$96,893,151	$76,555,264	$20,337,887	79.0%	20
US Total	**$4,221,152,134**	**$2,983,360,762**	**$1,237,791,374**	**70.7%**	**N/A**

*Source: Pew Charitable Trust State Pension Funding Gap: 2018 (https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2020/06/the-state-pension-funding-gap-2018

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 2020 declined modestly to 76.7%, down from 81.3% in fiscal year 2019. The decline was due to the increase in benefits in the form of a cost of living adjustment and notable downward adjustment in the assumed investment rate by OPERS and TRS.

As noted above, Oklahoma continued to make important progress in lowering its investment return assumptions. The investment return assumption for OPERS was lowered from 7.0% to 6.5%, while TRS lowered its assumed rate from 7.5% to 7.0%. 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.

Oklahoma Pension Systems
As of June 30, 2020

Pension System	Assumed Rate of Return	Funded Status
Teachers	7.0%	67.3%
OPERS	6.5%	93.3%
Firefighters	7.5%	70.4%
Police	7.5%	100.8%
Law Enforcement	7.5%	88.3%
Judges	6.5%	106.5%
Wildlife	7.0%	88.2%

The state has made significant progress in reducing the unfunded accrued actuarial liability in recent years yet pension obligations remain the source 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 included to provide a holistic view of the state's debt position.

Debt Affordability Study Conclusions

The state has been thoughtful and judicious in its use of debt to finance capital improvements maintaining a low debt burden and flexibility to issue new debt. Thanks to this approach, and structural limits, the state continues to have the capacity to utilize debt to finance select capital investments without creating a significant burden on the state budget.

However, any future debt authorizations and issuance should be a part of a multi-year capital plan that strategically deploys debt capacity to address capital needs. A conservative approach to utilizing debt in a systematic manner will ensure that the state maintains the flexibility far into the future.

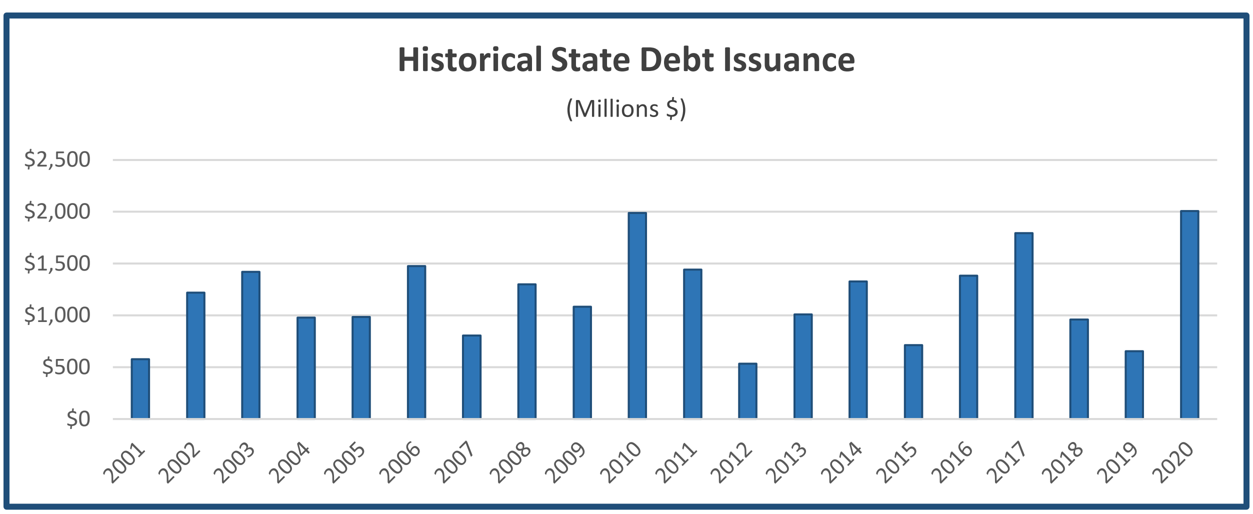
2020 State Financing Activity

State debt issuance increased significantly in 2020 setting an all-time record of $2 billion. State entities subject to Council of Bond Oversight approval issued 34 series of bonds and leases in 2020 in the total principal amount of $2 billion compared to a total of $656 million in 2019 and $961 million in 2018. Appropriation backed lease obligations accounted for $425 million or 21%, while revenue bond sales totaled $1.58 billion or 79% of total issuance volume. The state did not issue general obligation bonds in 2020.

Total issuance volume in calendar year 2020 increased dramatically after two years of moderate activity. Interest rates plunged creating an environment to capture savings just as the pandemic was introducing significant uncertainty to the financial outlook for many state issuers. Approximately half of the issuance in 2020, $1 billion, was in the form of refundings for interest cost savings. Federally taxable issuance also surged as issuers looked to refinance debt outside of the 90 day call window to capture savings offered by historically low rates. Additionally, those same low rates made taxable issuance for new money projects more attractive. Significant transactions by the Oklahoma Turnpike Authority (two series totaling $366.4 million) accounted for 18% of total issuance volume for the year. As the graph of historical state issuance illustrates, the State averaged $1.18 billion in annual sales over the last 17 years, with a previous high of $1.99 billion in 2010 and a low of $534.8 million in 2012.

Other significant transactions in 2020 included new money issuances by the Oklahoma Capitol Improvement Authority (OCIA). OCIA issued $169.5 million in lease revenue bonds to finance the 8-year construction work plan for the Department of Transportation. OCIA also issued $48.6 million to finance improvements to the state park facilities operated by the Department of Tourism and Recreation and $13.4 million to for the Department of Human Services Greer facility located in Enid.

The higher issuance volume was primarily driven by historically low interest rates. Low rates allowed issuers to utilize taxable advance refundings and made financing new money projects more attractive as the State, through the OCIA, issued over $230 million for capital projects. It is anticipated that, 2021 will provide fewer opportunities to refund outstanding debt to achieve interest savings. However, rates remain near record lows and the COVID-19 pandemic has placed financial stress on issuers, which could result in enhanced scrutiny of debt portfolios and opportunities to achieve savings or restructure existing debt.



Capital Planning

The state's Capital Improvement Plan (CIP) and the Long-Range Capital Planning Commission were established in 1992 and represented Oklahoma's recognition of the need for comprehensive capital planning in state government. The capital planning process has changed significantly since that time. During the 2012 and 2013 legislative sessions, the composition of the commission was modified and its duties were expanded. Concurrently, the primary responsibility for preparation of the CIP was shifted to the Office of Management and Enterprise Services from the former State Bond Advisor's Office.

Further, the CIP was extended by three years, requiring the preparation of an eight-year plan. Pursuant to Oklahoma Statutes, the commission must submit an itemized and prioritized list of the proposed projects set forth in the CIP to the Governor, the President Pro Tempore of the Senate and the Speaker of the House of Representatives within the first seven days of the legislative session. The Legislature then has 45 calendar days to pass a concurrent resolution disapproving any or all of the proposed projects or the CIP is deemed approved. Additional information on funding, projects, and organization of the CIP, along with policy recommendations provided by the commission can be found on the Office of Management and Enterprise Services website (www.omes.ok.gov) under Services > Capital Planning.

Private Activity Bond Allocations

The Oklahoma Private Activity Bond Allocation Act (the Act) provides for the systematic distribution of the state's Volume Ceiling and allows for fair access to small communities. The Act, which is administered by the Deputy Treasurer for Debt Management, ensures that the state complies with the provisions of federal law limiting the use of these bonds.

Pursuant to Revenue Procedure 2018-57, published by the Internal Revenue Service, the volume limit on qualified private activity bonds adjusted for inflation for calendar year 2020 was the greater of $105 per capita of the state's resident population or $316.7 million. For calendar year 2020, Oklahoma's volume cap was $415 million.

2020 Private Activity Bond Allocations

Issuer	Program	Amount ($)	Allocation Date	Pool
Bryan Co. Public Facilities Auth.	MCC	4,000,000	6/19/2020	Local Issuer SF
Cherokee Co. Economic Dev. Auth.	MCC	4,000,000	8/28/2020	Local Issuer SF
Cleveland Co. Home Loan Auth.	MCC	4,000,000	8/28/2020	Local Issuer SF
McClain Co. Economic Dev. Auth.	MCC	1,000,000	8/28/2020	Local Issuer SF
Oklahoma Co. Finance Auth.	MF	20,000,000	11/10/2020	Consolidated
Pottawatomie Co. Home Finance Auth.	MCC	1,000,000	8/28/2020	Local Issuer SF
OHFA Single Family	SF	190,740,978	12/31/2020	Carryforward
OHFA Multifamily	MF	190,740,978	12/31/2020	Carryforward
Total:		**415,481,956**		

2020 Local Financing Activity

Oklahoma statutes require local governmental entities to file a notice regarding the sale or issuance of obligations with the Deputy Treasurer for Debt Management within 10 days of the date upon which funds become available (closing of the issue/loan). The filing must include a copy of the official statement or notice of sale and “any other information concerning the proposed financing required” by the Council of Bond Oversight.

As shown in the table below, local issuers in Oklahoma reported almost $2 billion in bond and note volume in calendar year 2020. The largest local issues in 2020 included the $275 million financing by the Oklahoma City Water Utilities Trust and the $90 million sale of City of Tulsa general obligation bonds.

Volume of Issuance by Local Governmental Entities
Calendar Years 2015-2020
($ in thousands)

Issuer Type	**2016**	**2017**	**2018**	**2019**	**2020**
Authorities	$702,716	$875,635	$904,709	$1,168,608	$ 570,288
School Districts	412,525	798,725	795,370	827,590	812,013
Cities	312,750	243,995	190,079	264,430	320,295
Counties	-	21,160	4,676	-	-
Water/Sewer Districts	508,083	290,888	6,210	8,937	286,281
TOTALS	**$1,936,074**	**$2,230,403**	**$1,901,044**	**$2,269,565**	**$ 1,988,877**

A five-year history of local bond issuance volume by issuer type illustrates issuance has varied significantly by issuer type but overall issuance has consistently remained near $2 billion.