S&P Global Ratings

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Summary:

Oklahoma City, Oklahoma; Appropriations; General Obligation; Moral Obligation

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Credit Profile		
US$116.6 mil GO bnds ser 2021 dtd 03/01/2021 due 03/01/2041		
Long Term Rating	AAA/Stable	New
US$30.0 mil GO ltd tax bnds (taxable) ser 2021 dtd 03/01/2021 due 03/01/2041		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Oklahoma City's approximately $116.6 million series 2021 general obligation (GO) bonds and approximately $30 million series 2021 limited-tax GO bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's existing limited- and unlimited-tax GO debt.

S&P Global Ratings also affirmed its 'AA+' rating, with a stable outlook, on Oklahoma City Economic Development Trust's, Central Oklahoma Transportation & Parking Authority's, and Oklahoma City Public Property Authority's various appropriation issues, supported by the city.

The series 2021 GO bonds are payable from revenue from an ad valorem tax, without limitation as to rate or amount, on all taxable property in the city. The series 2021 GO limited-tax bonds are payable from revenue from a limited ad valorem tax not to exceed 5 mills. With a debt service levy on its limited-tax GO debt at slightly more than 1 mill, the city has significant revenue-raising flexibility. Because limited-tax revenue is derived neither from a narrower property tax base than the obligor nor a tax base with different or disproportionate risks, and due to resource fungibility and a proven commitment to support obligations, we rate the city's limited-tax obligations equal to its unlimited-tax GO pledge.

The ratings on the various series issued by Oklahoma City Economic Development Trust, Central Oklahoma Transportation & Parking Authority, and Oklahoma City Public Property Authority are one notch off our view of the city's general creditworthiness, reflecting our view of legally available funds, subject to appropriation. The ratings reflect our view of an Oklahoma City Council-adopted support agreement, under which the city will transfer legally available funds to support annual bond debt service if the primary pledged revenue is insufficient, as well as maintain a debt service reserve fund. Various revenue sources primarily secure all these series. Pursuant to our multiple revenue streams criteria, however, we view legally available funds subject to appropriation the stronger pledge for all the bond series.

We rate Oklahoma City above the sovereign because we think it can maintain better credit characteristics than the nation in a stress scenario based on predominantly locally derived revenue and our view that pledged revenue supporting bond debt service is at limited risk of negative sovereign intervention. (For further information, please see our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.)

Credit overview

Oklahoma City is the state's most populated city. With a growing, diversifying, local economy, the city's major revenue streams steadily increased annually leading up to the COVID-19 pandemic and ensuing recession. After the onset of the pandemic, the city conservatively prepared for a reduction in sales tax revenue by implementing cost reduction measures and reducing sales tax revenue assumptions. These actions proved to be effective and resulted in a relatively stable financial position and stable financial performance through fiscal 2020 and so far during fiscal 2021. In addition, the city's strong financial management practices and policies under our Financial Management Assessment (FMA) methodology have helped it to weather previous national and regional recessions while maintaining very strong reserves. The city continues to diversify away from oil and gas sector activity, particularly after a reduction in corporate presences following oil price declines in 2015 and 2016. Debt, pension, and other postemployment benefit (OPEB) costs remain manageable.

The rating reflects our opinion of Oklahoma City's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our FMA methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 37% of operating expenditures;
- Very strong liquidity, with total government available cash at 36.5% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 10.4% of expenditures and net direct debt that is 116.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

Although much of Oklahoma is in tornado alley and has elevated environmental risk due to tornadoes, the city has not experienced a significant event in recent years. In addition, we believe the city's strong management practices and policies provide a framework that would maintain stable credit quality should such a storm affect the city. In analyzing the city's economy, management, financial measures, and debt and liability profile, we did not identify any social or governance risks that are not standard for the sector.

Stable Outlook

Downside scenario

We could lower the rating if the city's budgetary performance or budgetary flexibility weakens materially, whether due to a softening of key revenue streams from a continued economic contraction, material growth in expenditures that outpaced revenue, or significant pressure due to increasing fixed charges.

Credit Opinion

Very strong economy

We consider Oklahoma City's economy very strong. The city, with an estimated population of 665,643, is in Canadian, Cleveland, Pottawatomie, and Oklahoma counties in the Oklahoma City, OK MSA, which we consider broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. It has projected per capita effective buying income of 88.6% of the national level and per capita market value of $83,660. Overall, the city's market value grew by 5.5% over the past year to $55.7 billion in 2020. The weighted-average unemployment rate of the counties was 3.1% in 2019.

Following the onset of the COVID-19 pandemic and lower oil prices in March 2020, economic activity declined, reducing sales tax collections, but there were no major changes to major taxpayers, employers, or tax base. Oklahoma County's unemployment rate peaked at 15.4% in April 2020 but quickly improved to 7.2% in June and was 5.2% as of December 2020, still slightly higher than the average of about 3% before the pandemic. The sharp drop in oil prices in March 2020 did not profoundly affect the local economy. The tax base continues to diversify and little oil or gas-related activity occurs within the city's boundaries. Also, many oil and gas companies with presences in the city had eliminated jobs following the declines in oil prices in 2015 and 2016 and never rebuilt this lost workforce, which means that these companies were already operating leaner leading up to the pandemic.

Oklahoma City is the state's capital, largest city, and primary economic center. In our opinion, it benefits from the government sector's stabilizing influence, including federal, state, and local agencies that collectively represent slightly less than one-quarter of the total population. Tinker Air Force Base and Oklahoma City Air Logistics Center have an estimated 24,000 total civilian and military employees. In our opinion, nontaxable properties depress market value per capita. The trade, education, business, and professional services; manufacturing; and health care sectors also support the economy. Although the energy sector and ancillary services have historically supported the economy, concerted efforts to diversify the base and a reduction in oil and gas corporate presences in the city have, in our view, somewhat insulated the city from the sector.

The MSA continues to expand. Several developments are currently underway, including new retail, a boutique hotel, new restaurants, and an entertainment venue. Officials are conservatively estimating 3% growth in net assessed value over the next two-three years, though historical trends would indicate that this will likely be closer to 3%-5% per year. Job growth continues due to the construction, professional services, and leisure and hospitality sectors. Job growth and employment diversification have spurred demand for new residential construction and boosted existing home values.

In addition to the strong residential sector, commercial development has increased in recent years. Ongoing projects include the redevelopment of the First National Bank into a new hotel and apartments with retail space, as well as new office buildings. A new convention center, streetcar system, and park space were funded by the city's MAPS3 sales tax program that expired in March 2020. We think continued construction and redevelopment efforts, supported by economic development programs and the city's MAPS3 and MAPS4 sales tax programs, will likely result in ongoing economic growth citywide. In December 2019, the electorate approved MAPS4, which is a temporary one-cent sales tax to replace a sales tax expiring at the end of March 2020. Officials expect MAPS4 to generate $978 million during the next eight years for numerous citywide parks, transit, Chesapeake Energy Arena, various health and wellness centers, and homelessness improvements. The COVID-19 pandemic did reduce the expected sales tax collections from MAPS4 by approximately $6 million so far but officials indicate that this amount will likely be made up over the life of the tax and that no projects have been altered or removed because of this reduction.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Using economic data from Oklahoma City University, management bases revenue projections on both historical trends and economic forecasts. Management prepares quarterly budget status reports for the council, with the council amending the operating budget as needed.

The council also adopts a five-year, rolling capital improvement plan, as well as an annual capital budget. In conjunction with Oklahoma City University economic forecasts, management prepares five-year financial forecasts and presents them to the council annually.

The city has a formal minimum fund balance requirement for the general and utility funds, which it has adhered to historically. The general fund policy, on a budgetary basis of accounting, is maintenance of 14%-20% of expenditures.

The city's formal investment management policy calls for annual reviews and quarterly investment reports to the council. A formal debt management policy governs debt issuance and includes limitations, including variable-rate debt and derivatives.

Adequate budgetary performance

Oklahoma City's budgetary performance is adequate in our opinion. The city had operating surpluses of 4.8% of expenditures in the general fund and of 3.5% across all governmental funds in fiscal 2020.

The city posted positive general fund operating results but a slight deficit result across all governmental funds during fiscal 2020. Our assessment accounts for the possibility of a prolonged recovery from the COVID-19 pandemic that could pressure revenue, particularly sales and use tax revenue, which makes up 68% of operating revenue. Management is prepared to make the necessary budget adjustments to remain structurally balanced.

In fiscal 2020, sales tax revenue fell by 1.1% from the previous year and came in 4% below the budget. In anticipation of declining sales taxes, city officials reduced expenditures after the onset of the pandemic to maintain balanced operations. In March 2020, they instituted a hiring freeze and stricter departmental spending controls. Given these measures, the city was able to add to reserves come year-end. We believe the quick actions taken by management and the conservative approach to sales tax revenue assumptions reflect the city's strong financial management practices and policies.

For fiscal 2021, officials estimate an operating surplus in the general fund. However, excess revenue could potentially be used for one-time items, maintaining general fund reserves at a level similar to fiscal 2020. Officials attribute the estimated surplus to conservative sales tax estimates and continued cost controls. As of February 2021, sales tax collections are 4.7% higher than budgeted but 4% lower than last year. Use taxes, however, are currently trending 13% higher than the budget, partially due to the increased collection of online use taxes throughout the pandemic.

Looking ahead to the fiscal 2022 budget, officials expect to adopt a balanced budget without any major expenditure cuts and a slight increase in major revenue sources. The city will continue to fund various capital projects with its MAPS4 sales tax program.

Very strong budgetary flexibility

Oklahoma City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 37% of operating expenditures, or $163.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Considering the city's projections for breakeven operations in the general fund for fiscal 2021, we expect budgetary flexibility will likely remain very strong during our two-year outlook and above 30% of expenditures.

The city reported a general fund surplus for fiscal 2020 despite a decline in sales tax revenue during the pandemic. As we expected during our last review, city management effectively monitored any revenue declines and adjusted expenditures accordingly to avoid drawing down on reserves. Management adheres to its formal fund balance-policy minimum of 14%-20%, with reserves currently at 37% of expenditures.

Available reserves decreased in fiscal years 2016 and 2017 during the last regional recession, largely due to oil price decreases, but the city maintained reserves at levels we consider very strong and in compliance with the formal fund balance policy during this period.

Very strong liquidity

In our opinion, Oklahoma City's liquidity is very strong, with total government available cash at 36.5% of total governmental fund expenditures and 3.5x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

We believe the city's liquidity will likely remain very strong during our two-year outlook. City investments include highly liquid instruments, including U.S. government and agency instruments and money-market accounts, which we have added to the total available government cash we include in our ratios.

We understand the city does not have any contingent liabilities that could cause immediate or future liquidity pressure. The Oklahoma City Zoological Trust issued sales tax revenue notes in 2019 that were privately placed. The notes are supported by the revenue from a one-eighth of 1% sales tax levied in the city pursuant to a sales tax agreement between the trust and the city. Under the terms of the note indenture, the principal and interest of the note can be immediately accelerated upon the occurrence of an event of default. However, we do not view the events of default as permissive. If the debt was to be accelerated, the city has sufficient cash and fund balance on hand to cover the full costs without a material weakening of its budgetary flexibility or liquidity. Currently, $9.8 million on note principal remains outstanding.

Adequate debt and contingent liability profile

In our view, Oklahoma City's debt and contingent liability profile is adequate. Total governmental fund debt service is 10.4% of total governmental fund expenditures, and net direct debt is 116.6% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

The city will have $574 million of remaining GO debt authorization following the current bond issuances. We understand it plans to issue GO debt annually during the coming years, but we do not expect additional debt issuance to affect the debt and contingent liability profile.

Oklahoma City's combined required pension and actual OPEB contributions totaled 4.7% of total governmental fund expenditures in 2020. Of that amount, 3.2% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The city made 101% of its annual required pension contribution in 2020.

Pension and OPEB liabilities

Oklahoma City provides pension benefits for nonuniformed employees through two single-employer, defined-benefit pension plans. In addition, eligible employees receive police and fire pension benefits by participating in statewide, cost-sharing, multiple-employer plans.

Contributions to state plans are statutorily based and not actuarially determined. Although we have not made a negative adjustment for large pension obligations, we could change our view should increased contributions lead to budgetary pressure.

Oklahoma City Employees' Retirement System's and Oklahoma Police Pension & Retirement System's net positions, as a percent of total pension liability, were well funded at 101.3% and 100.0%, respectively. Central Oklahoma Transportation & Parking Authority and Oklahoma Firefighters' Pension & Retirement System were 78.4% and 72.8% funded, respectively.

Oklahoma City also provides postemployment medical care for retirees through a single-employer, defined-benefit medical plan it supports through pay-as-you-go financing. We do not expect these costs to increase substantially during the next few fiscal years. The city adopted and implemented formal OPEB changes in November 2016, effective beginning on Jan. 1, 2017. No new hires are eligible for the plan. Existing employees' participation increased to 60 years old with 15 years of service from 55 years old with five years of service. Both changes were expected to reduce the OPEB liability by about $91 million in the 10 years following the changes. In addition, the retiree shared cost increased by 2% annually until it reached 50% on Jan. 1, 2019. The city will continue to contribute the annual pay-as-you-go amount.

Strong institutional framework

The institutional framework score for Oklahoma cities and towns with general fund revenues greater than $25,000 or population greater than 2,500 is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of March 15, 2021)		
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Central Oklahoma Transp & Pkg Auth pkg rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO (NATIONAL)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Oklahoma City Pub Prop Auth		
Long Term Rating	AA+/Stable	Affirmed
Central Oklahoma Transp & Pkg Auth, Oklahoma		
Oklahoma City, Oklahoma		
Central Oklahoma Transp & Pkg Auth (Oklahoma City) pkg sys rev bnds (Oklahoma City) ser 2019 due 09/01/2044		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City Econ Dev Trust, Oklahoma		
Oklahoma City, Oklahoma		
Oklahoma City Econ Dev Trust (Oklahoma City) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City Econ Dev Trust (Oklahoma City) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City Econ Dev Trust (Oklahoma City) (Incr Dist #8) moral oblig		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City Econ Dev Trust (Oklahoma City) (Incr Dist #8) moral oblig		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.