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Ratings

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Summary:

Oklahoma City; Appropriations; General Obligation; Moral Obligation

Primary Credit Analyst:
Stephen Doyle, New York + 1 (214) 765 5886; stephen.doyle@spglobal.com

Secondary Contact:
Andy A Hobbs, Dallas + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

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Credit Profile		
US$110.0 mil GO bnds ser 2022 due 03/01/2042		
Long Term Rating	AAA/Stable	New
US$29.595 mil GO rfdg bnds ser 2022 due 03/01/2032		
Long Term Rating	AAA/Stable	New
Oklahoma City GO		
Long Term Rating	AAA/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

Rating Action

S&P Global Ratings assigned its 'AAA' rating, with a stable outlook, to Oklahoma City's approximately $110 million series 2022 general obligation (GO) bonds and approximately $25.59 million series 2022 GO refunding bonds.

The series 2022 GO bonds and series 2022 GO refunding 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 proceeds from the series 2022 GO bonds will fund various capital projects including street construction, parks and recreation facilities, library facilities, and several other projects. The series 2022 GO refunding bonds will refund existing GO debt for interest rate savings.

The ratings on the various debt series outstanding 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. 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 and diversifying local economy, the city's major revenue streams continue to grow and support strong financial performance, even during the COVID-19 pandemic and ensuing recession. To prepare for potential revenue declines 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 years 2020 and 2021. 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, and is focused on supporting future economic growth across various sectors. Further supporting the rating, the city's debt, pension, and other postemployment benefit (OPEB) costs remain manageable.

The rating reflects our opinion of Oklahoma City's:

- Growing and diversifying economy within a broad and diverse metropolitan statistical area (MSA);
- Strong financial policies and practices and a strong institutional framework;
- Strong budgetary performance and very strong budgetary flexibility, supported by growing operating revenues and comprehensive financial management practices; and
- Strong debt and contingent liability profile, with manageable debt service and pension carrying charges.

Environmental, social, and governance

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. 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. The city's available general fund balance has increased in recent years, and city management plans to utilize this increased budgetary flexibility to insulate its financial position against future weather events such as tornadoes, ice storms, hail, or thunderstorms. 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

Growing, diversifying state capital with projections showing continued tax base and employment growth

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 provide jobs to over 20,000 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, a positive for its overall credit quality and our view of the economy.

This increasing diversification and ongoing economic growth allowed the city to weather the pandemic relatively well with no major pandemic-related changes to major taxpayers, employers, or the tax base overall over the past two years. The city's unemployment rate quickly recovered following the onset of the pandemic, and volatility with oil prices presented less stress on the city compared to previous oil price declines.

The MSA continues to expand. Job growth and employment diversification have spurred demand for new residential construction and have boosted existing home values. We think continued construction and redevelopment efforts, supported by economic development programs and the city's MAPS 3 and MAPS 4 sales tax programs, will likely result in ongoing economic growth citywide. In December 2019, the electorate approved MAPS 4, which is a temporary one-cent sales tax to replace a sales tax expiring at the end of March 2020. Officials expect MAPS 4 to generate $978 million during the next eight years for numerous citywide parks, transit, Paycom Center, various health and wellness centers, and homelessness improvements.

Very strong management with strong financial policies and practices that support consistent financial operations through periods of economic uncertainty

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. The city also has a cybersecurity plan that is continuously updated and requires training for employees.

Stable financial performance and increasing reserves due to growing major revenue streams and conservative budget assumptions

Oklahoma City relies on sales and use taxes revenue to fund the majority of its operations. As of fiscal 2021, sales and use tax revenue represented 62% of the city's operating revenue, though a portion is dedicated to capital projects. To deal with the higher volatility of this revenue type compared to property taxes, the city budgets conservatively, closely monitors intrayear financial performance, and maintains sufficient budgetary flexibility for liquidity. After the onset of

the COVID-19 pandemic, officials acted swiftly to make budget adjustments in order to maintain structural balance if sales taxes declined. Moving forward, management is prepared to make the necessary budget adjustments to remain structurally balanced.

In fiscal 2021, sales tax revenue grew substantially following the April 2020 implementation of a temporary sales tax that will fund the city's MAPS 4 program. The proceeds of this temporary sales tax will be transferred to the MAPS4 fund to cover projects outlined under the MAPS 4 program. Outside of the increase related to MAPS 4, sales taxes were stable. Other major revenue streams were also stable, while expenditures came in lower than the prior year due to conservative budget assumptions.

For fiscal 2022, officials estimate another operating surplus in the general fund. Officials attribute the estimated surplus to conservative sales tax estimates and continued cost controls. Use taxes also continue to trend higher with increased online spending. For fiscal 2023, officials expect to adopt a balanced budget with no use of fund balance. The city will continue to fund various capital projects with its MAPS 4 sales tax program. Considering the city's projections for a surplus in the general fund for fiscal 2021 and its break-even budget for fiscal 2022, we expect budgetary flexibility will likely remain very strong during our two-year outlook and above 30% of expenditures.

As we expected during our last review, throughout the pandemic the city's 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 44% of expenditures. The city is discussing the creation of a capital fund where excess reserves above 22% of expenditures will be held and designated as restricted for capital projects. However, these funds would still be available for liquidity or emergencies if needed. We believe these efforts demonstrate management's proactiveness toward weather risks and sales tax volatility, which strengthens our view of its financial position and budgetary flexibility.

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.

Manageable debt service and pension costs, with ongoing debt plans that are not expected to materially change the debt profile

The city will have $464 million of GO debt authorization following the issuance of the series 2022 GO and GO refunding bonds. 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.

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, $8.9 million of the note principal remains outstanding.

Pension and OPEB highlights:

Oklahoma City provides pension benefits for nonuniformed employees through two single-employer, defined-benefit pension plans. Additionally, 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 94% and 95.8%, respectively. Central Oklahoma Transportation & Parking Authority and Oklahoma Firefighters' Pension & Retirement System were 75.7% and 69.9% 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. Additionally, 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 populations greater than 2,500 is strong.

Oklahoma City--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	91			
Market value per capita ($)		87,457		
Population			670,994	665,643
County unemployment rate(%)			6.3	
Market value ($000)		58,682,807	55,687,785	52,774,224
Ten largest taxpayers % of taxable value	6.4			
Strong budgetary performance				
Operating fund result % of expenditures		5.8	4.8	5.1
Total governmental fund result % of expenditures		15.7	3.5	16.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		44.7	37.3	37.0

Oklahoma City--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	**2020**	**2019**
Total available reserves ($000)		184,430	163,661	157,241
Very strong liquidity				
Total government cash % of governmental fund expenditures		40	41	52
Total government cash % of governmental fund debt service		342	350	418
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.6	11.6	12.4
Net direct debt % of governmental fund revenue	117			
Overall net debt % of market value	2.9			
Direct debt 10-year amortization (%)	66			
Required pension contribution % of governmental fund expenditures		3.9		
OPEB actual contribution % of governmental fund expenditures		1.5		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

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 February 25, 2022)

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

Ratings Detail (As Of February 25, 2022) (cont.)		
Oklahoma City GO		
Long Term Rating	AAA/Stable	Affirmed
Oklahoma City GO rfdg bnds		
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
Oklahoma City Econ Dev Trust, Oklahoma		
Oklahoma City, Oklahoma		
Oklahoma City Econ Dev Trust (Oklahoma City) tax apportionment rfdg bnds (increment dist #8)		
Long Term Rating	AA+/Stable	Affirmed
Oklahoma City Econ Dev Trust (Oklahoma City) tax apportionment rfdg bnds (increment dist #8)		
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) 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
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.