

Oklahoma's fiscal upswing nets positive Moody's outlook

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After years of financial struggle, Oklahoma received a positive outlook from Moody's Investors Service on its Aa2 rating.

A positive outlook indicates a possible upgrade in an issuer's rating.



"Our financial house is in order and we are poised to strengthen our position in the months and years ahead," said Oklahoma State Treasurer Randy McDaniel.

State Treasurer Randy McDaniel said the state's efforts to increase reserves, eliminate structural deficits, improve pension finances, and diversify the state's economy are working.

"Our financial house is in order and we are poised to strengthen our position in the months and years ahead," McDaniel said after Moody's revised its outlook to positive from stable Wednesday.

After two years of revenue shortfalls, the Sooner State expanded its revenue base through supermajority legislative action in 2018, resulting in budget surpluses and increased reserves over the past two fiscal years.

The revenue downturn came with a 60% drop in oil prices that began in mid-2014 before rebounding briefly then settling around the level of \$55 per barrel of West Texas Intermediate crude.

"The state's Aa2 issuer rating reflects a moderately strong economy that remains exposed to the volatile oil sector, very low state debt and low pension liabilities, and moderately strong governance that is hampered by constitutional limits on raising new revenues," Moody's lead analyst Joshua Grundleger wrote.

Moody's had a negative outlook on Oklahoma since December 2015, a year and a half after oil prices began a 60% drop from the mid-2014 high of more than \$100 per barrel.

In March 2018, then-Gov. Mary Fallin signed a [series](#) of revenue increases into law, marking the first time in nearly 30 years that the state was able to surpass the 75% legislative supermajority required for a tax increase. Fallin called two special sessions to address a budget shortfall and provide a raise for teachers.

In September 2017, Moody's revised its outlook to [stable from negative](#), citing the improved revenues and legislative measures to restore balance.

S&P Global Ratings rates Oklahoma AA with a stable outlook, as does Fitch Ratings. In 2017, S&P and Fitch downgraded the state to AA from AA-plus.

Oklahoma Gov. Kevin Stitt signed an \$8.13 billion fiscal 2020 budget, which appropriates \$470 million, or a 6.3% year-over-year increase in funding for state agencies and disbursements to local governments. For the first time in the state's history, lawmakers also appropriated \$200 million of the preceding year's surplus to the Revenue Stabilization Fund.

Beginning in fiscal 2021, deposits into the RSF will include up to 3% of general revenue fund collections, along with gross production and corporate income tax.

Earlier this month, McDaniel reported that gross revenue of \$13.73 billion from the past 12 months was up \$1.2 billion, or 9.5%, from collections from the previous 12-month period.

Oil and gas gross production tax collections brought in \$1.14 billion during the 12 months, up by \$327.4 million, or 40%, from the previous period.

September gross receipts to the Treasury showed modest overall growth, McDaniel said. The increase was less than one percent, driven by a downturn in oil and gas tax collections and a drop in sales tax revenues.

Total monthly gross receipts from all revenue sources were \$1.16 billion, up from the same month of the prior year by \$3.8 million, or 0.3%. That was the smallest amount of growth in 30 months.

"On a positive note, gross receipts to the Treasury show improvement continues with stable expansion in income, motor vehicle, and use tax receipts," McDaniel said.

"However, the report also indicates that growth in the state's economy has leveled off in recent months primarily due to a decline in oil field activity."

In September, year-over-year collections on the production of oil and gas were down by \$31.5 million, or 29.9%. During the year, oil prices dropped by 19.2% and rig counts plunged by 32.6%.

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