

MEMORANDUM

TO: Council of Bond Oversight

FROM: Alexandra Edwards, Deputy Treasurer for Debt Management

SUBJECT: Request from the Oklahoma Turnpike Authority for Provisional and Final Approval to issue up to \$500 million of Second Senior Revenue Bonds, Series 2023

DATE: September 11, 2023

Background

The Oklahoma Turnpike Authority (“OTA” or “the Authority”) is seeking approval to issue up to \$500 million of Second Senior Revenue Bonds, Series 2023, to fund costs associated with its Advancing and Connecting Communities and Economies Safely Statewide Program (“ACCESS” or “the Program”).

The OTA is an instrumentality of the state authorized to construct, maintain, repair, and operate turnpike projects across the state at locations authorized by the Oklahoma Legislature, as described in Title 69, Sections 1701 through 1734, as amended, and Title 47, Sections 11-1401 through 11-1405, as amended, of the Oklahoma Statutes. The Authority is governed by a Board consisting of the Governor (ex-officio) and six members appointed by the Governor, with consent from the Oklahoma Senate, who serve eight-year terms. The members represent statutorily defined districts and have full control over turnpike operations.

The Oklahoma Legislature has the exclusive right to authorize turnpike routes, and Title 69, Section 1705 of the Oklahoma Statutes authorizes 35 routes. The Authority has the exclusive right to determine whether to construct a turnpike route, as well as the right to set toll rates. There are currently 11 turnpikes in Oklahoma covering 624.4 miles, as detailed below:

Turner Turnpike	86.0 miles
Will Rogers Turnpike	88.5 miles
H.E. Bailey Turnpike	86.4 miles on main route + 8.2 miles on spur
Indian Nation Turnpike	105.2 miles
Muskogee Turnpike	53.1 miles
Cimarron Turnpike	67.7 miles
John Kilpatrick Turnpike	30.3 miles
Cherokee Turnpike	32.8 miles
Creek Turnpike	34.4 miles
Kickapoo Turnpike	18.5 miles
Chickasaw Turnpike	27.1 miles, but only 13.3 miles tolled by the Authority

The ACCESS Program is a 15-year capital plan designed to address on-going highway infrastructure needs to improve access to communities across the Oklahoma Turnpike System. As further described in the attachments to the OTA’s application, specifically the “ACCESS Oklahoma Program Memorandum”, the program consists of multiple projects to expand and enhance toll roads throughout the state, bringing approximately 55 miles of additional roadway capacity to the system. The Program was estimated to cost \$5 billion when announced in February 2022.

Financing Plan

The Authority may issue Turnpike Revenue Bonds for the purpose of paying the costs of turnpike projects, as explicitly authorized in Title 69, Section 1709 of Oklahoma Statutes, payable solely from the tolls and other revenues of the Authority. Bonds issued by the OTA do not constitute a debt of the state. OTA intends to finance the costs of the ACCESS Program through the issuance of Second Senior Revenue Bonds, completed through the sale of multiple series of bonds over a period of several years. As of September 1, 2023, the Authority had outstanding principal totaling approximately \$1.6 billion, as shown in the table below. This does not include the Series 2020A Junior Note, as that obligation was repaid in full by the OTA on June 30, 2023 with cash on hand.

<u>Obligation</u>	<u>Final Maturity Date</u>	<u>Original Issue</u>	<u>Principal Outstanding</u>	<u>Interest</u>
Series 2017A Bonds	January 1, 2047	\$ 456,070,000	\$ 456,070,000	Fixed Rate
Series 2017C Bonds	January 1, 2047	312,840,000	209,920,000	Fixed Rate
Series 2017D Bonds	January 1, 2028	275,680,000	190,560,000	Fixed Rate
Series 2017E Bonds	January 1, 2031	95,835,000	89,180,000	Fixed Rate
Series 2018A Bonds	January 1, 2047	344,310,000	344,310,000	Fixed Rate
Series 2020A Bonds	January 1, 2033	187,195,000	160,905,000	Fixed Rate
Series 2020B Bonds	January 1, 2033	<u>179,165,000</u>	<u>135,695,000</u>	Fixed Rate
Total		<u>\$1,851,095,000</u>	<u>\$1,586,640,000</u>	

The OTA has demonstrated ample senior lien debt service coverage of between 2.14x and 3.68x over the last five years, as shown on the “Historical Operating Results of the Authority” as an attachment to the application. Projected coverage ratios, inclusive of the \$500 million for which OTA is seeking approval but excluding any future toll increases, have also been included as an attachment to the application.

On June 9, 2022, the OTA Board approved a Resolution authorizing the issuance of Revenue Bonds in an amount not to exceed \$1B for the purpose of funding turnpike projects and improvements, including those identified in the ACCESS Oklahoma Program. The Authority issued RFPs to solicit bids for service providers shortly thereafter and the following financing team was selected after a thorough review:

- Bond Counsel: Hawkins Delafield & Wood LLP
- Disclosure Counsel: Kutak Rock LLP
- Financial Advisor: Hilltop Securities

Trustee: Bank of Oklahoma
Printer: McAlwee & Quinn

Additionally, the OTA issued and evaluated RFPs for underwriters and created a pool of underwriters from responding firms. From this pool a syndicate was selected to serve on the upcoming transaction, which now includes RBC as Senior Manager, with Stifel, Morgan Stanley, BOKF, and Raymond James as Co-Managers.

The Series 2023 Bonds are expected be sold as fixed-rate obligations with a 30-year term, as authorized and permitted in Title 69, Section 1709 of Oklahoma Statutes, and by the Board approved Resolution. While the Resolution approved by the OTA Board on June 9, 2022, stated an expected issuance of Series 2022A bonds, it further noted “or as further designated by year and series”, and due to the passage of time, the proposed bonds would be issued as Series 2023. The negotiated sale is currently scheduled for October 2023. As part of the issuance process, OTA is soliciting ratings on the bonds. Fitch Ratings and S&P Global Ratings both currently maintain ratings of “AA-” with a Stable Outlook on outstanding OTA bonds, and Moody’s Investor Service currently maintains a rating of “Aa3” with a Stable Outlook.

The proposed obligations are special obligations of the Authority, payable solely from the tolls and other revenues pledged under the Trust Agreement and motor fuel excise tax revenues accruing to the Turnpike Trust Fund pledged under the Trust Agreement. The bonds do not represent a debt of the State of Oklahoma and neither the full faith and credit, nor the general taxing power of the State are pledged to repayment.

Other Matters

On June 9, 2022, the OTA Board approved a Resolution directing the submission of an application to the Oklahoma Supreme Court for validation of the bonds. At the same meeting, the Board also approved a Resolution authorizing the Director to submit an application to the Council of Bond Oversight for consideration.

On August 9, 2022, the Council of Bond Oversight conditionally approved an application from OTA to issue up to \$500 million Second Senior Revenue Bonds, Series 2022A, subject to certain stated parameters, which included validation by the Oklahoma Supreme Court. On February 5, 2023, however, the conditional approval expired as the 180-day approval period ended.

The OTA filed an application with the Oklahoma Supreme Court on August 10, 2022. Oral presentations were heard before a referee in September 2022, followed by oral arguments before the full Court in late November 2022.

On August 1, 2023, the Oklahoma Supreme Court, in a 6-3 decision, ruled in favor of the Authority on all issues and approved the issuance of the bonds. A copy of the Court’s opinion is included as an attachment to the application. On August 21, 2023, a Petition for Rehearing was filed with the Oklahoma Supreme Court. At this time, the Petition remains pending before the Court.

Additionally, on March 15, 2023, the Attorney General requested that the State Auditor and Inspector conduct an investigative audit of OTA. The results of this audit remain pending at this time. In the event the bonds are issued prior to completion of the audit, Kutak Rock LLP, as Disclosure Counsel on the transaction, will be required to provide relevant details for investor consideration.

Oklahoma Statutes, Title 62, Section 695.8

The role of the Council in reviewing applications such as the OTA's proposed bond issue is outlined in Title 62, Section 695.8 of Oklahoma Statutes which states:

"A. The Council of Bond Oversight shall:

1. Make determinations as to whether the purposes for which obligations proposed to be issued by a State Governmental Entity, in conjunction with a State Governmental Entity Financing, are for the furtherance and accomplishment of authorized and proper public functions or purposes of the state or of any county or municipality, as specified in the statutes governing public trusts organized pursuant to Title 60 of the Oklahoma Statutes;
2. Review proposed issuance of debt by State Governmental Entities for compliance with any applicable provisions of federal, state or other laws;
3. Review such other matters as the Council deems relevant to the Application, including, without limitation, sources of repayment and security for the obligation. However, the Council shall not review the merits of the project. The Council shall only determine that the project has a legal and beneficial purpose which can be legitimately funded by bond or similar indebtedness, issued by a State Governmental Entity or Local Governmental Entity;"

Recommended Conditions

If the Council of Bond Oversight approves the request of the Oklahoma Turnpike Authority to issue up to \$500 million of Second Senior Revenue Bonds, Series 2023, the following conditions are recommended:

- 1) Receipt of the Preliminary Official Statement prior to pricing of the obligations;
- 2) Receipt of the Final Official Statement prior to closing;
- 3) Receipt and approval of the Fee Approval Form (BO-8) prior to closing;
- 4) Receipt of evidence of resolution or dismissal of the petition for rehearing of Pike Off OTA, Inc., et all, (Case No. O-120619);
- 5) Receipt of the form of the Bond Counsel Opinion and form of the Supplemental Opinion from Hawkins Delafield & Wood LLP, as Bond Counsel, prior to pricing, and receipt of executed opinions prior to closing;
- 6) Receipt of the form of opinion from Kutak Rock LLP, as Disclosure Counsel, prior to pricing, and receipt of the executed opinion prior to closing; and

- 7) Receipt of the form of opinion from McCall, Parkhurst & Horton LLP, as Underwriter Counsel, prior to pricing, and receipt of the executed opinion prior to closing.