

**DESCRIPTIONS OF TYPES OF BONDED DEBT IN OKLAHOMA
AND
GLOSSARY OF GENERAL MUNICIPAL MARKET TERMS**

Description of Types of Oklahoma Bonded Debt

General Obligation Bonds – governmental purpose

(issuer: Oklahoma Building Bonds Commission)

The Oklahoma Constitution requires that general obligation bonds be approved by a vote of the people and that the enabling law provide for the collection of a direct annual tax sufficient to pay the debt as it comes due within twenty-five years of issuance.

Voter-approved general obligation bonds are a full-faith and credit obligation of the State and carry a pledge by the State to make repayment of principal and interest from any legally available source of funds. The only outstanding governmental-purpose general obligation bonds of the State have been issued by the Oklahoma Building Bonds Commission.

The outstanding governmental-purpose, general obligations bonds of the State of Oklahoma are secured initially by cigarette taxes. These are tax-supported bonds.

Self-Supporting General Obligation Bonds – industrial loans

(issuer: Oklahoma Industrial Finance Authority)

The Oklahoma Industrial Finance Authority operates a voter-approved general obligation bond program under which the proceeds of the issues are used to make industrial development loans. The State Constitution limits the amount of general obligation debt that can be outstanding at any time for this purpose to \$90,000,000. If the borrower fails to make payment under this program, the ODFA will issue State general obligation bonds and use the proceeds to pay off the loan. General obligation bonds have never been issued to pay obligations due under this program.

The outstanding OIFA general obligation bonds are secured initially by the loan repayments and then by OIFA reserves. These are tax-backed, but not tax-supported bonds.

General Obligation Bonds – Credit Enhancement Reserve Fund Program

(issuer: Oklahoma Development Finance Authority)

The Oklahoma Development Finance Authority (the “ODFA”) is constitutionally authorized to incur general obligation indebtedness in an amount not to exceed \$100 million to provide credit support for the Credit Enhancement Reserve Fund (“CERF”) Program. All or portions of issues approved for participation in the program are guaranteed by CERF. The guarantee provides that general obligation bonds will be sold, if needed, to make required debt service payments.

The \$100 million Constitutional authorization has been divided by statute, with \$60 million dedicated to the Pooled Business Financing Program and the Public Facilities Financing Program and \$40 million reserved for the Quality Jobs Investment Program.

This general obligation bonding authority represents a contingent liability and, as such, do not require any expenditure of State funds unless general obligation bonds are issues. These are tax-backed, but not tax-supported bonds.

Lease Revenue Bonds

(issuer: Oklahoma Capitol Improvement Authority)

With statutory authorization, the Oklahoma Capitol Improvement Authority (the "OCIA") issues lease revenue bonds and notes to finance State capital facilities and equipment. Security for the bonds is provided by a lease with the State entity that occupies the facility or uses the equipment. The lease payments typically come from appropriations made by the Oklahoma Legislature for that purpose.

The legal structure of these issues provides that the leases may be terminated in the event sufficient appropriations are not received to make the required lease payment. As a result, the Oklahoma Supreme Court has opined on multiple occasions that the OCIA lease revenue bonds do not constitute a debt, as defined in the Oklahoma Constitution and, therefore, do not require voter approval. The credit markets view OCIA lease-backed obligations as slightly less secure than the State's general obligation.

Most outstanding OCIA bonds are secured by annual appropriations to the agency lessees (although a few pay from other agency sources). Most of these are tax-supported bonds.

Direct Agency and Higher Education Lease Obligations

(issuer: multiple agency and campus issuers)

In addition to the bonds sold by the OCIA, a number of other State agencies and institutions of higher education have issued lease revenue obligations to meet capital needs. Often, the annual lease payments are made by the State agencies from the appropriation they receive for operations, without the need for an increase in their budget to meet the lease requirement. In other cases, however, the agency is given approval by the Legislature to enter into a lease purchase agreement that requires an increase in the annual general revenue appropriation. In both cases, these leases may also be terminated in the event of non-appropriation.

These lease obligations are secured by a variety of agency or campus sources. Some require appropriation support. These are a mix of tax-backed and tax-supported bonds.

Regents for Higher Education Master Lease Programs

(issuer: Oklahoma Development Finance Authority)

In 2001, a master lease program was created to provide for the more efficient and cost-effective financing of equipment acquisition by Oklahoma's public institutions of higher education. The Oklahoma Development Finance Authority issues bonds for this program that are secured by a lease with the Oklahoma Regents for Higher Education and by sub-leases with the participating campuses. In the event the lessees do not make their required lease payments from other sources, the State Regents can divert that institution's share of higher education appropriations to ensure timely payment of principal and interest on the bonds.

In most cases, the participants use a dedicated campus revenue stream, such as fees, user charges, or other income to make their lease payments. In 2006, the master lease program was expanded to include real property projects, resulting in even greater savings for the campuses.

A list of projects to be funded through the master lease programs must be submitted to the Oklahoma Legislature during the first week of the session each year. The Legislature has 45 days to reject any or all projects on the list. If projects are not disapproved within that period, they are deemed approved.

The outstanding ODFA master lease bonds are secured initially by various fees, user chargers, and revenues. These are tax-backed, but not tax-supported bonds.

General Revenue Bonds – OU and OSU

The University of Oklahoma and Oklahoma State University have statutory authority to issue General Revenue Bonds, secured by any generally available revenues, excluding only appropriated tax dollars and other specifically restricted funds. This security pledge allows OU and OSU to access the credit markets at very favorable interest rates. Any projects expected to be funded using this type of debt must be submitted to the Legislature for review each year. If the Legislature does not reject a project, it is deemed approved 45 days after the submission.

These are revenue bonds secured by all general revenues of the universities, except appropriated tax dollars and certain restricted funds. These are neither tax-backed, nor tax-supported bonds.

Revenue Bonds – Multiple Issuers

Many State entities generate revenues from their operations and can, with proper statutory authority, issue bonds secured by their program or system cash-flows. Examples of these are: the Oklahoma Turnpike Authority; Grand River Dam Authority; Oklahoma Municipal Power Authority; Oklahoma Student Loan Authority; Oklahoma Housing Finance Agency; and the Oklahoma Water Resources Board.

While some of these entities issue bonds for capital purposes, others use bond proceeds to make loans in keeping with their program purpose. In either case, investors in these revenue bonds look to the cash-flow of the operation, rather than State general revenues, for security. The legal documents describing the security behind these bonds make it clear that they are not an obligation of the State of Oklahoma.

These are revenue bonds secured solely by the revenues pledged to repayment of the bonds, as described in the respective trust indentures. The State has no legal obligation to make payment on these bonds. These are neither tax-backed, nor tax-supported bonds.

Glossary of General Municipal Market Terms

Amortization: The reduction and elimination of debt that results by making scheduled principal payments.

Basis point: Used in discussing the price and yield of a bond, a basis point is equal to one hundredth of a percentage point. Therefore, one hundred basis points equals one percent.

Callable bond: A bond that the issuer is permitted or, in some cases, required to redeem prior to the stated maturity at a specified price. The issuer must give notice of bond redemption in the manner specified in the bond documents.

Closing Date: The date for delivery of securities in exchange for payment of the sale price by the underwriter(s).

Competitive sale: A sale of municipal securities by an issuer in which underwriters submit sealed bids to purchase the securities. The securities are awarded to the underwriter with the best bid, according to the guidelines outlined in the notice of sale.

Coupon: The part of a bond that stipulates the amount of interest due and on when and where the payment is to be made. The coupon is also used to refer to the interest rate on the bond. The interest due to the investor at the coupon rate is generally payable semiannually.

Coverage: The number of times that pledged revenues from a project cover debt service in a 12-month period.

Default: Failure to make full principal and interest payments when due, or failure to comply with the primary covenants specified in the indenture.

Escrow account: A fund set up to pay bond debt service on the due date or a specified redemption date.

General obligation (GO) bond: A bond backed by the full faith and credit of a state or local government.

Maturity: The date on which a bond or note principal payment is due.

Negotiated sale: The sale of municipal securities by an issuer directly to an underwriter. The selection may be competitive (using a request for proposals) or noncompetitive. Points of negotiation include the maturity structure, coupon interest rates, re-offering yields, and call features.

Principal: The par value or face value of a bond. A typical bond denomination is \$5,000.

Yield to Maturity: The total return on a bond. This calculation factors in the price of the bond, the coupon, and the time to maturity.