FIVE YEAR FORECAST

Fiscal Year 2021-2025

An economic and operational outlook for the city.

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An economic and operational outlook for the city.

EXECUTIVE SUMMARY

Overall, the city is in a favorable financial position as financial growth continued into Fiscal Year 2020 (FY20), but growth is projected to slow in the last half of the fiscal year resulting in revenue collections at or near expectations. The city has again worked with Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University, to develop the economic outlook for the coming year. Dr. Evans' expectation for the metro economy is one of uncertainty with a range of -0.50% to 1.64% growth for fiscal year 2021, assuming a national recession does not occur. The Five-Year forecast that follows provides an evaluation of the city's current financial condition and is designed to provide accurate, timely, and objective information about the City's financial condition as well as a view of the economic and operational outlook for the city. Staff will continue to work with the City Manager to present Council with a proposed FY21 budget that balances operating needs with available resources.

FINANCIAL EVALUATION TOOLS

The *Financial Trend Monitoring System (FTMS)* looks back at how multiple key indicators have performed over the last five and ten years and considers the trend of these indicators to assess Oklahoma City's current financial condition. This system provides the city with a more comprehensive evaluation of financial condition rather than focusing on individual indicators, such as fund balance. The overall results of the FTMS indicator ratings were 56% positive, 22% neutral and 22% negative which was a decline from last year where 61% indicators trended positive. Key indicators that trended positive included sales tax revenues, fund balance, average weekly earnings, labor force and employment, and airport activity.

Many financial issues are beyond the scope of the annual budget process and require other solutions. Departments identified *49 financial issues* the City will be facing over the next five years. Identifying significant issues now provides an early warning system and staff can develop plans that recommend possible direction and next steps to be taken.

GENERAL FUND CURRENT FISCAL YEAR

A moderately strong local economy generated growth of 3.9% through December 2019. General Fund revenue collections were $1.5 million below year-to-date budget projections with Use Tax collections from online retailers driving the majority of decline. Expenses were $12.5 million below budget as departments were challenged with filling vacant positions. The unemployment rate averaged less than 3% – a sign that the demand for workers exceeds availability. The Police Department graduated 70 new officers in 2019 and plan for another 128 to graduate in 2020. Other departments are developing strategies for employee recruitment.

GENERAL FUND OUTLOOK

Growth in the economy is projected to slow in FY21 resulting in projected growth of less than 1%. Service enhancements made to the FY21 base budget included budget increases that align to some top priority areas such as filling vacant positions. Over the next five years, General Fund revenues are expected to average 2.9% growth annually while expenditures are projected to average 3.2% growth annually. Revenue projections are based on an economic downtown and rather than project the fiscal year in which the downturn will occur, the estimate was smoothed over the five-year outlook. The imbalance in revenue and expenditure growth patterns means that there is a projected gap of $11.6 million in FY25 in the General Fund. New revenue sources, an expanded sales tax base, and continued growth in the local economy may be needed to fund operations at a level desired by citizens. By laying out the many challenges identified, long-term strategies and priorities can be set to address the issues and projected General Fund Gap.

FIVE-YEAR FORECAST
FISCAL YEAR 2021 - 2025

SECTION 2

INTRODUCTION

PURPOSE

The purpose of the Five-Year Financial Forecast is to evaluate the City's financial condition as it relates to programs and services. With accurate, timely, and objective information about the City's financial condition, elected officials can help ensure the stability of Oklahoma City's general and other municipal funds. With continued financial viability and service demand forecasting, the city can anticipate and meet community needs, enable additional economic diversification, and promote growth for years to come. This forecast focuses on revenues and expenditures associated with the General Fund, which finances a diverse spectrum of city programs to meet the community's needs and will serve three functions:

- **COMPLIANCE.** This forecast helps the City comply with city financial policies and practices designed to ensure the responsible utilization of public resources. This is governed by State law, through the Municipal Budget Act, and internal policies established by City Charter or Council ordinances and resolutions.

  Although a specific requirement for the preparation of a financial forecast does not appear in State law, 11 O. S. 2003, Article X, § 10 113 requires the City Manager to *"keep the council advised of the financial condition and future needs of the city and make recommendations as he deems desirable."* The city has adopted the practice of developing a financial forecast that estimates future revenues and expenditures and identifies major financial issues that may arise for the ensuing five-year period.

- **STRATEGY.** With such a broad scope of services and limited resources, the City must be careful and strategic in allocating its resources. This forecast provides the Mayor and City Council with information to formulate long-term strategies to ensure city services are available at a level appropriate to the actual needs of the community. Annual budgeting alone can fail to serve the long-term public interest if short-term priorities reduce resources that may be required to meet imminent needs that fall beyond the one-year budget scope.

  By identifying long-term issues and assessing resources, the forecast can provide information and create continuity between annual budgets and the long-term needs of the city. The forecast is a valuable tool for identifying potential problems and for policy makers to incrementally address such problems with a seamless continuation of core services.

- **ACCOUNTABILITY.** The forecast serves as a snapshot of the city's current and projected financial well-being for the general citizenry and the business community by providing a. It provides citizens and business leaders with an overview of the city's ability to meet community needs over time. This document also demonstrates the city's financial planning process and strengthens local government's accountability to the community.

The Five-Year Financial Forecast is not intended to serve as a comprehensive source for all city-related financial activity, such as programs funded through city trusts and authorities. However, this forecast does include an assessment of unfunded capital and programmatic issues that may impact those entities.

The city is developing and executing several significant plans that are laying the groundwork for an exciting future. This Five-Year Financial Forecast is intended to provide city leaders, citizens, and staff with the information necessary to help guide the future of The City of Oklahoma City.

STRUCTURE OF THE REPORT

Following the Executive Summary and Introduction Sections, the Financial Trends begins in Section Three. This section is designed to give city leaders and citizens a simple tool for evaluating the city's financial condition on a year-to-year basis. Adapted from *"Evaluating Financial Condition: A Handbook for Local Government,"* published by the International City/County Managers Association, this method identifies the trends in various financial and environmental areas and rates them as positive, neutral, or negative. A *"score"* can then be determined showing how many of the trends fall in each category.

Following the Economic Financial Trends, Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University (OCU), developed Section Four, Economic Outlook. The City has contracted with OCU to provide the most rigorous forecast available. The information from the economic forecast informed the estimation of sales tax revenues in the preliminary budget for FY20 and this forecast.

Section Five of the Forecast provides an overview of the major issues facing city departments. The goal of Section Five is to provide an *"early warning system"* to the City Manager and City Council of significant issues that are beyond the scope of the annual budget process and possible direction/next steps for addressing the issues. The section begins with a recognition of previous issues that have concluded with successful outcomes. Next, are highlighted issues that are significant in scope and last is a summary, by department, of the issues facing city departments.

Regular financial evaluations help ensure stability

Evaluating the City's financial condition on a regular basis can help ensure stability in the City's General Fund so that programs and services meet the community's needs.

The final sections of the forecast (Six, Seven, and Eight) provide General Fund revenue and expenditure trends and projections over the next five years and the projected gap in FY25.

FIVE-YEAR FORECAST
FISCAL YEAR 2021 - 2025

SECTION 3

FINANCIAL TRENDS

FIVE-YEAR FORECAST
FISCAL YEAR 2021-2025

INTRODUCTION

Local governments, even those with historically strong financial track records, face challenges in financial management that are unique from their corporate counterparts. One main reason for this difference is that while there is much agreement on factors to consider when evaluating the financial condition of a business, there is not a similar general consensus on how to evaluate the condition of a local government.[1] Even with the abundance of information provided in the Budget document and in the Comprehensive Annual Financial Report (CAFR), key data between two governments can differ significantly and the motives and rationale behind the decision making process can be fundamentally different. With this in mind, staff has incorporated the Financial Trend Monitoring System (FTMS) as part of the Five-Year Forecast. This method of financial analysis is presented in *Evaluating Financial Condition: A Handbook for Local Government* published by The International City/County Management Association (ICMA). This is the 13th year using the FTMS.

Financial indicators are created by combining budgetary and financial reports with economic and demographic data.

The goal is to use the FTMS as a management tool to recognize multiple key quantifiable indicators and consider the trend of these indicators within the context of Oklahoma City's current environment, organizational structure and strategy. This way, City decision makers are provided with a more comprehensive evaluation of financial condition rather than only concentrating on a single indicator such as fund balance. Moreover, the indicators are plotted over time to reduce the chance of making erroneous conclusions from isolated data elements. Trend analysis helps provide correct interpretation. With regular monitoring and evaluation of these trends moving forward, Oklahoma City's management will be well informed to make the most financially responsible decisions.

WHAT IS FINANCIAL CONDITION?

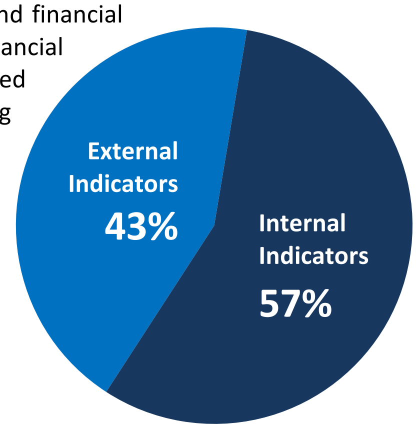
Financial condition refers to a government's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change. More specifically, financial condition refers to:

- **Cash Solvency** – a government's ability to generate enough cash in thirty or sixty days to pay its bills.
- **Budgetary Solvency** – a government's ability to generate enough revenues over its normal budget period to meet expenditure requirements and not incur deficits.
- **Long Run Solvency** – a government's ability in the long run to pay all the costs of doing business including expenditures that normally appear in each annual budget as well as those that will be paid only in the years in which they are due.
- **Service Level Solvency** – a government's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community.[1]

The intention of the indicators and analysis that follow, when considered collectively as a group, is to provide the City's leadership and citizens with a better picture of how Oklahoma City is performing in each financial condition. Knowledge of the City's financial conditions is fundamental to developing strategies to address the current situation and the future.

HOW DOES THE FINANCIAL TREND MONITORING SYSTEM (FTMS) WORK?

FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators. Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government early to potential problems and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation 23 measures were used. The measures omitted were either not applicable to Oklahoma City or the data is currently not available for the indicator. The group of indicators chosen should help Oklahoma City:



- Develop a better understanding of its financial condition;
- Identify hidden and emerging problems before they reach serious proportions;
- Present a straightforward picture of the government's financial strengths and weaknesses to elected officials, citizens, credit rating firms, and stakeholders;
- Introduce long-range considerations into the annual budgeting process; and
- Provide a starting point for elected officials in setting financial priorities.

Despite the advantages of trend monitoring listed above, it is important to note that the indicators by themselves will not explain specifically why a problem is occurring. The indicators provide a snapshot of the City's financial condition and indicator trends can become predictors to govern City decision-making processes. Therefore, decisions for further analysis may be based on the direction the indicator is moving. It is then up to City management to interpret the data behind the indicators to determine why something has changed and to provide the appropriate response.

TREND PERIOD

A time period of five years was analyzed for the trend analysis. In most instances, the most recent five years (2015-2019) were examined. There were some instances when 2019 data was not available and therefore earlier time periods were used. The years used for each indicator are easily identifiable on the accompanying charts. Although trend analysis is based on the last five years of data, most indicator charts reflect ten years of data to provide context to the data and how the last national recession, which was from December 2007 through June 2009, may have impacted the indicator.

OVERALL RESULTS

Each indicator has been assigned a *"trend status"* to indicate the direction the indicator is moving. The definitions for the trend status are:

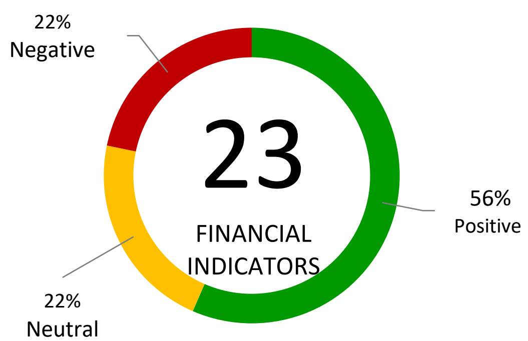
- A **positive** trend is favorable towards the City's financial condition and/or the indicator is meeting City policy or performance measures set by management.
- A **neutral** trend implies there is no immediate concern. These indicators are watched carefully for change to indicate early signs of improvement or worsening conditions.
- A **negative** trend is unfavorable for the City's financial condition and/or the indicator may not be meeting City policy or performance measures. These trends are analyzed further to determine if it is likely the trend will reverse or if corrective action is needed.

As the chart on the following page shows this year's FTMS has **13 positive** indicators, **5 neutral** indicators, and **5 negative** indicators. The City remains in a favorable financial position. A description of each measure, the sources of data used, and a discussion of the measure rating are included in this section beginning with page 14.

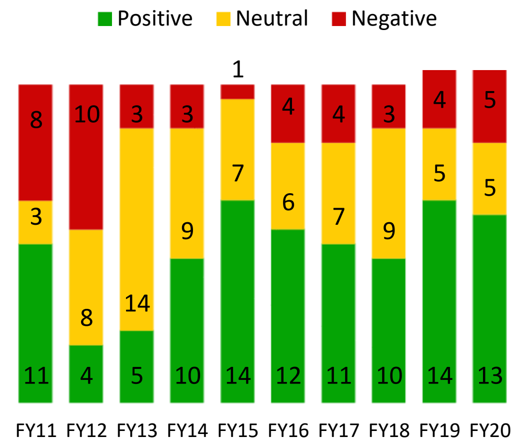
THE NEXT STEP

The FTMS system is not designed to project the future financial situation of the City; however, the system will provide a benchmark to track the City's recovery from the national recession (2007-2009) and the local economic downtown experienced in FY16 and FY17. Management will continue to monitor financial trends and develop strategies to keep the City moving in a positive financial direction.

FY20 INDICATOR RATINGS

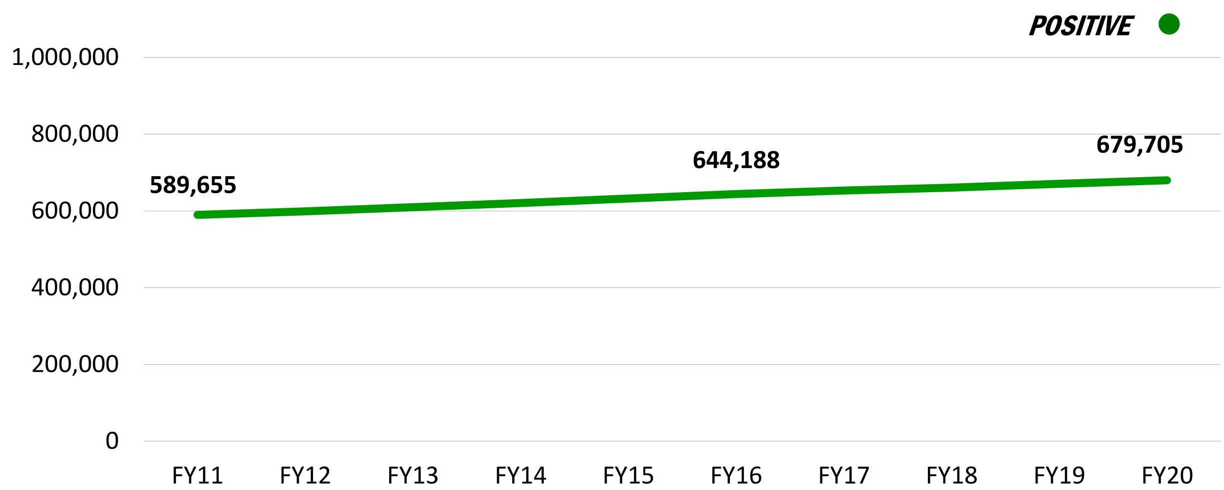


INDICATOR HISTORY



FY11	FY12	FY13	FY14	FY15	F16	FY17	FY18	FY19	FY20	EXTERNAL INDICATORS
●	●	●	●	●	●	●	●	●	●	Population
N/A	N/A	N/A	●	●	◆	◆	▲	●	●	Average Weekly Earnings
◆	▲	●	●	●	●	●	●	●	●	Labor Force
●	▲	●	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Per Capita Personal Income
▲	▲	◆	▲	●	●	●	●	▲	▲	Crime Rate
●	●	▲	▲	▲	●	●	●	●	●	Property Value
●	▲	●	▲	▲	▲	▲	▲	◆	◆	Office Vacancy Rate
◆	◆	▲	●	●	●	●	●	●	●	Airport Activity
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	●	●	Hotel Room Nights Sold
◆	▲	●	●	●	◆	◆	◆	◆	▲	Private Development Plans
◆	●	●	▲	●	◆	◆	▲	●	◆	Active Drilling Rigs
										INTERNAL INDICATORS
◆	▲	▲	●	●	●	●	●	●	●	Revenue Per Capita
●	◆	◆	▲	▲	▲	◆	◆	▲	◆	Revenue Accuracy
◆	▲	●	●	●	●	▲	◆	●	●	Sales Tax Revenues
▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	Sales Tax as a % of General Fund
◆	▲	●	●	●	●	●	▲	●	●	Hotel Tax Revenue
◆	▲	▲	▲	◆	◆	▲	▲	◆	◆	Grant Revenues
●	▲	▲	▲	▲	▲	▲	▲	▲	▲	Employees per 1,000 Citizens
●	▲	▲	▲	▲	▲	▲	▲	◆	◆	Fringe Benefits
●	◆	◆	●	●	●	●	●	●	●	Pension Funding Ratio
▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	Long-Term Debt
●	●	●	●	●	●	●	●	●	●	Fund Balance
●	●	●	●	●	●	●	●	●	●	Liquidity
●	▲	▲	▲	●	●	●	●	●	●	Enterprise Working Capital

POPULATION



Formula: Population Data from the City of Oklahoma City Planning Department

*Population **grew at an average of 1.5% per year** over the last five years.*

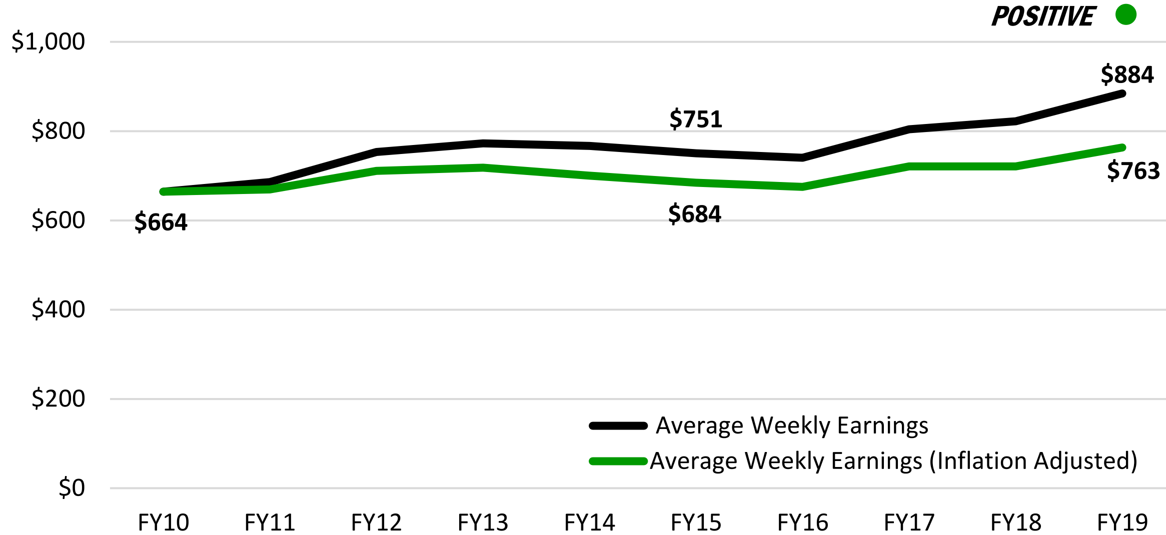
What does Population Growth Indicate?
Population change directly affects governmental revenues. A sudden increase in population can create immediate pressures for new capital outlay and increased levels of service. At first glance, a decline in population may seem to relieve the pressure for expenditures but often quite the opposite is true due to debt service, pensions, and government mandates being fixed amounts that are not easily adjusted in the short run. The interrelationship of population levels and other economic and demographic data reveal a cumulative negative impact on revenues as population declines.

Why is This Important to Oklahoma City?
Oklahoma City has been able to increase its revenue base without immediate, unplanned pressures for capital outlay and increases in service levels. Future monitoring of the population as compared to other financial indicators will help determine the cost of serving new residents in relation to the revenues they contribute through taxes. Oklahoma City has realized consistent growth in population since FY11, with an estimated 679,705 residents in FY20.[2] This is an average annual growth rate of 1.5% over the last five and 10 years. Since the growth has been relatively steady, the trend was rated positive.

AVERAGE WEEKLY EARNINGS

POSITIVE

COUNCIL PRIORITY



Formula: Average Weekly Earnings, Private Sector, All Industries for Oklahoma County / CPI

What Does Average Weekly Earnings Indicate?

Average Weekly Earnings (AWE) is the amount of income a person earns each week and is a primary measure of a community's ability to generate sales tax. The more persons working each week and the more they earn, the larger the impact on the amount of sales tax generated which is the City's primary funding source for the General Fund. A decline in AWE leads to a reduction in purchasing power that, in turn, hurts retail business and can ripple through the rest of the local economy. The data above is represents the Oklahoma City Metropolitan Statistical Area (OKC-MSA).

Why is This Important to Oklahoma City?

Attracting and retaining employers with jobs with higher than average earnings is one way the City can convey its commitment to economic development and positively impact residents' income levels and quality of life. Higher weekly earnings mean residents in the OKC-MSA, on average, can purchase more goods and services than they once were. Average Weekly Earnings (AWE) declined for three consecutive years (FY14, FY15 and FY16) when the local economy took a downturn. Strong growth returned in FY17 but after adjusting for inflation, remained flat compared to five years ago. The positive trend of higher average weekly earnings continued in FY18 and FY19, and after adjusting for inflation, posted growth of 11.5% over five years ago resulting in an improved rating from neutral to positive.

Current Year Activity

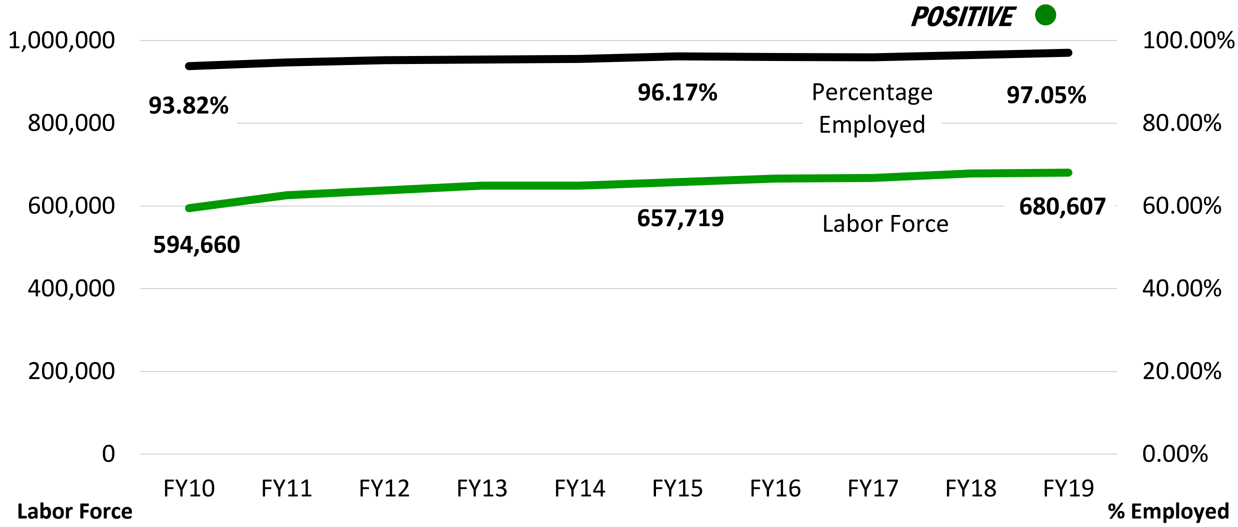
The Average Weekly Earnings for early FY20 year-to-date data shows continued improvement from the chart above. In current dollars, the AWE was $904 for July through November 2019.

Average Weekly Earnings had 11.5% growth over the last 5 years after adjusting for inflation.

LABOR FORCE

POSITIVE

COUNCIL PRIORITY



Formula: Number of People Employed in OKC-MSA / OKC-MSA Labor Force

Why is the Percentage of Population Employed an Indicator for Financial Condition?
Employment base is directly related to business activity and personal income. A growing employment base provides a cushion against short run economic downturns in a specific sector. In addition, a higher percentage of the population working results in higher per capita incomes. Both factors should have a positive influence on the local government's financial condition. A reduced percentage of employed citizens can be an early sign of an economic downturn, which would likely have a negative impact on government revenues.

Why is This Important to Oklahoma City?
For many economists, an unemployment rate of around 5% indicates "full employment" and if the rate remains consistent it can have a stabilizing effect on inflation.

2019 Largest Employers in OKC-MSA

		Estimated # of Employees		
Company Name	Sector	2019	2015	2010
State of Oklahoma	Government	47,300	46,900	42,000
Tinker Air Force Base	Military	24,000	26,000	27,000
University of Oklahoma	Higher Educ.	12,700	11,900	11,650
FAA Mike Monroney Aeronautical Center	Aerospace	7,000	6,500	7,000
Integris Health*	Health Care	6,000	6,000	9,200
Hobby Lobby Stores, Inc.*	Whlsl & Retail	5,100	5,100	2,500
University of Oklahoma Health Sciences	Higher Educ.	5,000	5,000	4,200
City of Oklahoma City	**Government**	**4,700**	**4,700**	**4,500**
Mercy Hospital*	Health Care	4,500	4,300	3,450
OGE Energy Corp*	Utility	3,400	3,400	3,450
OU Medical Center	Health Care	3,300	3,200	2,600
SSM Health Care of Oklahoma, Inc.*	Health Care	3,000	3,000	2,750
University of Central Oklahoma	Higher Educ.	3,000	2,900	1,000
The Boeing Company	Aerospace	3,000	1,800	N/A

*Company Headquarters

While the range for full employment may vary by expert, generally, when the unemployment rate is higher, residents are struggling to find employment; when the unemployment rate is lower, the opposite occurs, and employers may struggle to fill employment vacancies. In FY19, the percentage of the labor force of the Oklahoma City Metropolitan Statistical Area (MSA) employed was 97%, meaning 3% were unemployed or that employment in the local area was full. Over the last five years, employment has slightly increased and averaged 96.3% annually.

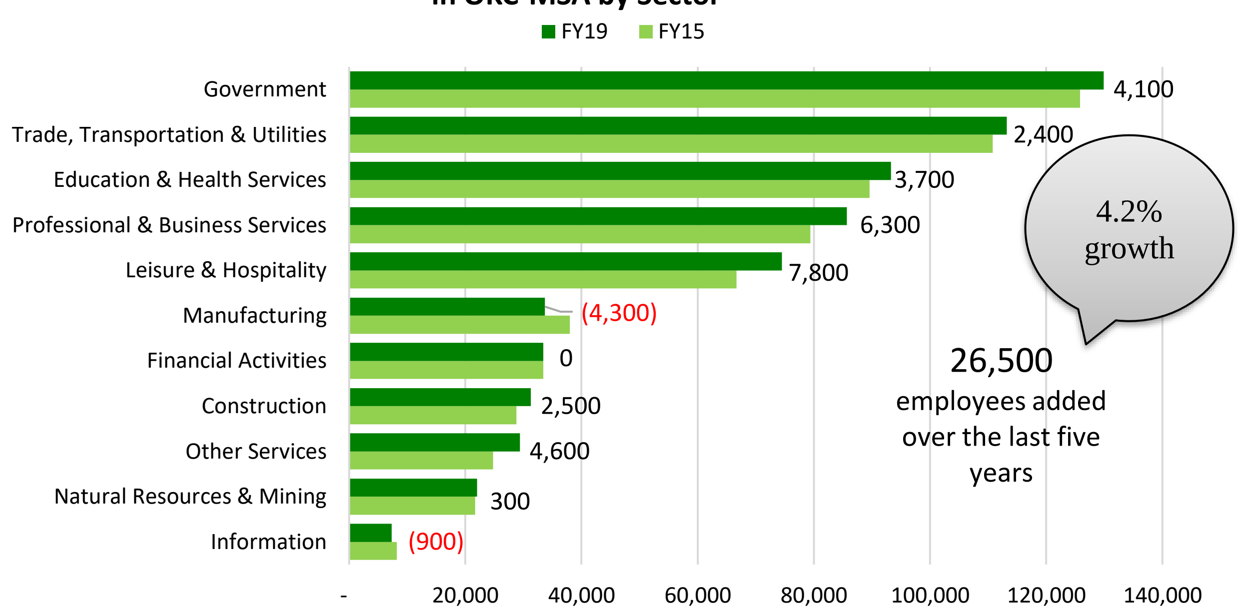
The percentage employed should be put into context with the size of the labor force. When the two data sets are used together it indicates the labor force is growing and job seekers can find employment. In the last five years, the labor force grew by 3.4% and employment grew by 4.4%. Annual growth in the labor force and consistent employment of 96.3% for the last five years resulted in a positive rating for this indicator.

Employment by Sector

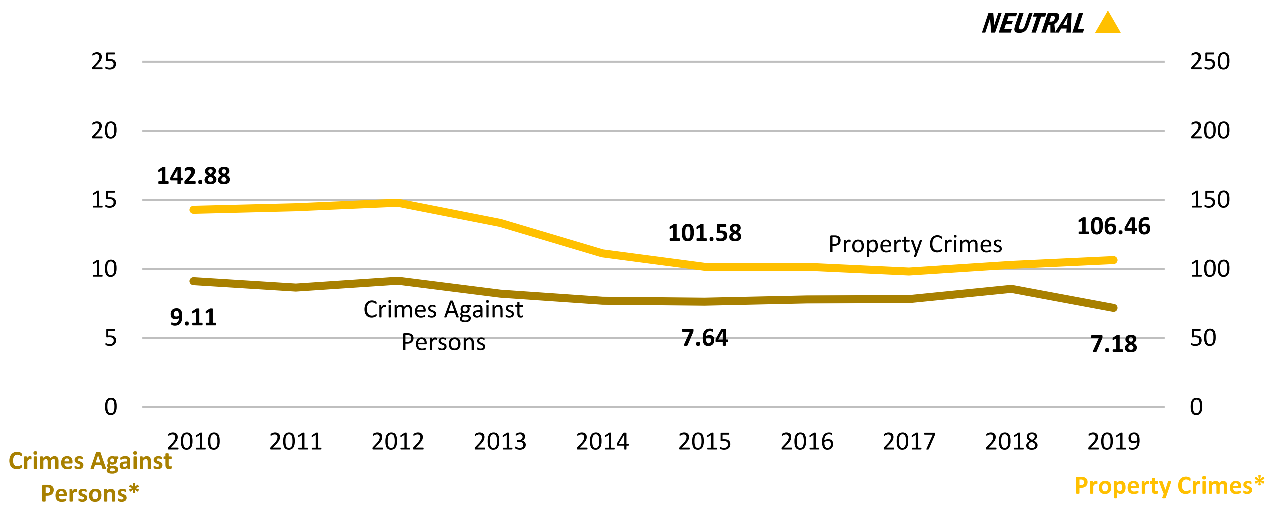
Monitoring employment by sector helps staff identify business cycles and trends that may impact the local economy. In turn, staff can use the data to recommend strategic actions and investments that diversify and help stabilize the local economy. For example, in the OKC-MSA the Leisure and Hospitality sector added 7,800 employees over the last five years, while the manufacturing sector lost 4,300 employees over the same period, as shown in the graph below. Additionally, the Information sector was the only sector to have declined over the five-year period without showing recent improvement.

The Leisure & Hospitality Sector had the largest increase with 7,800 employees added over the last five years.

5-Year Comparison/Growth of Non-Farm Employees in OKC-MSA by Sector



CRIME RATE



*Crimes against persons per 1,000 of population; property crimes per 1,000 households
Formula: Number of Crimes (against person or property) / Population/1,000 or Households/1000

In January 2019, 70 new recruits graduated, with another 128 expected to graduate in 2020.

Why is the Crime Rate an Indicator for Financial Condition?

Crime rate captures a negative aspect of a community that can affect its present and future economic development potential. The crime rate also measures demand on public services in the form of public safety expenditures. A rising crime rate, in extreme circumstances, can jeopardize the long-term health of the community by driving away existing businesses, discouraging new business, and straining the local government's budget with increased expenditures.

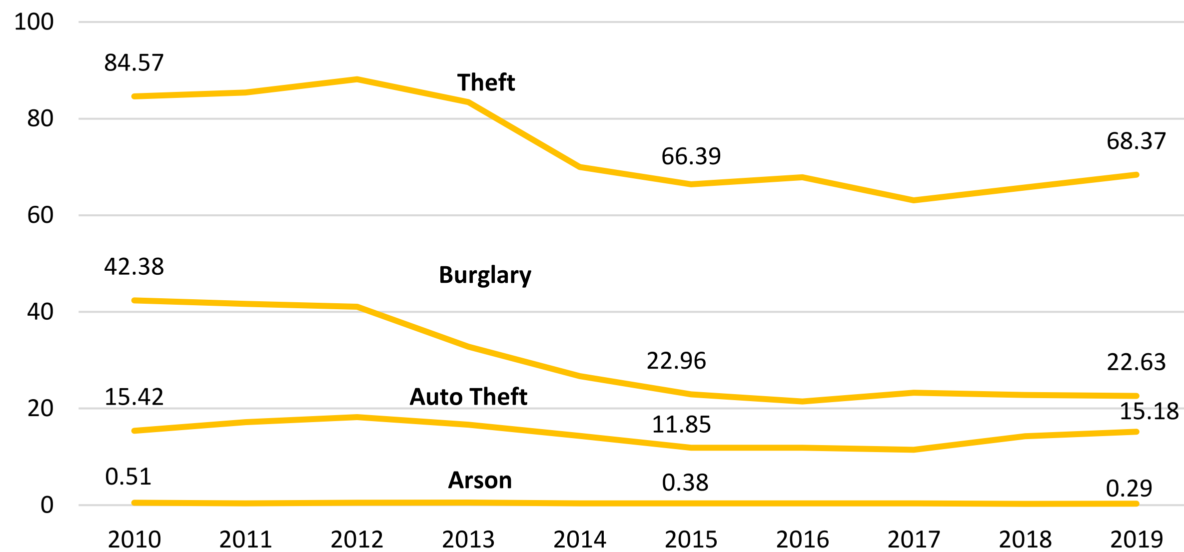
Why is This Important to Oklahoma City?

With a third of the General Fund budget dedicated to Police and Courts, monitoring crime trends and considering it in forecasts of future expenditures is financially prudent. The number of property crimes per 1,000 households has increased over the last five years from 101.58 crimes per 1,000 households in calendar year 2015 to an estimated 106.46 in 2019. The number of crimes against persons decreased from 7.64 per 1,000 in population in 2015 to an estimated 7.18 per 1,000 in population in 2019. The five-year trend of one crime category decreasing and one crime category increasing was the reason this indicator was rated neutral. The Police Department attempts to identify crime trends in real time and continues to enhance its efforts with intelligence-based policing and targeted enforcement through analysis of local crime data. The Police Department also continues to embrace Community Based Policing and proactively addresses concerns expressed by Oklahoma City residents. Public Safety is a priority for City Council, with 70 new recruits graduating in January 2019 and another 128 recruits expected to graduate in 2020.

*Data for 2019 is estimated using actual data from January – September. October through December were an average of the first nine months of 2019.

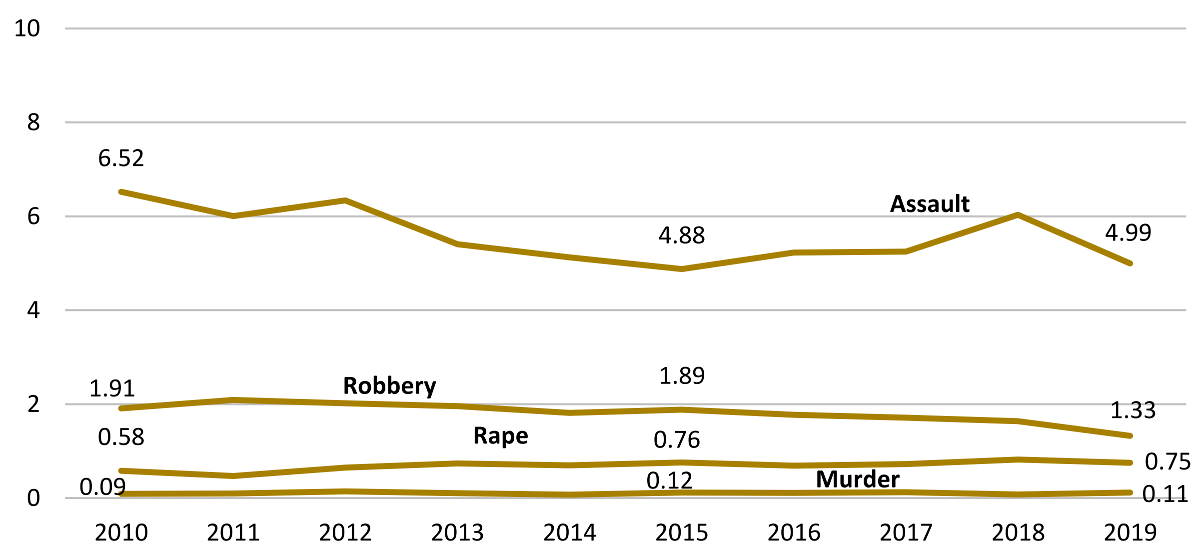
Property Crimes

The chart below is a sub-set of data behind the total number of property crimes in the graph on the preceding page. Over the last five years, property crimes per 1,000 households increased 4.81%. Theft and Auto-Theft were both up year-over-year.



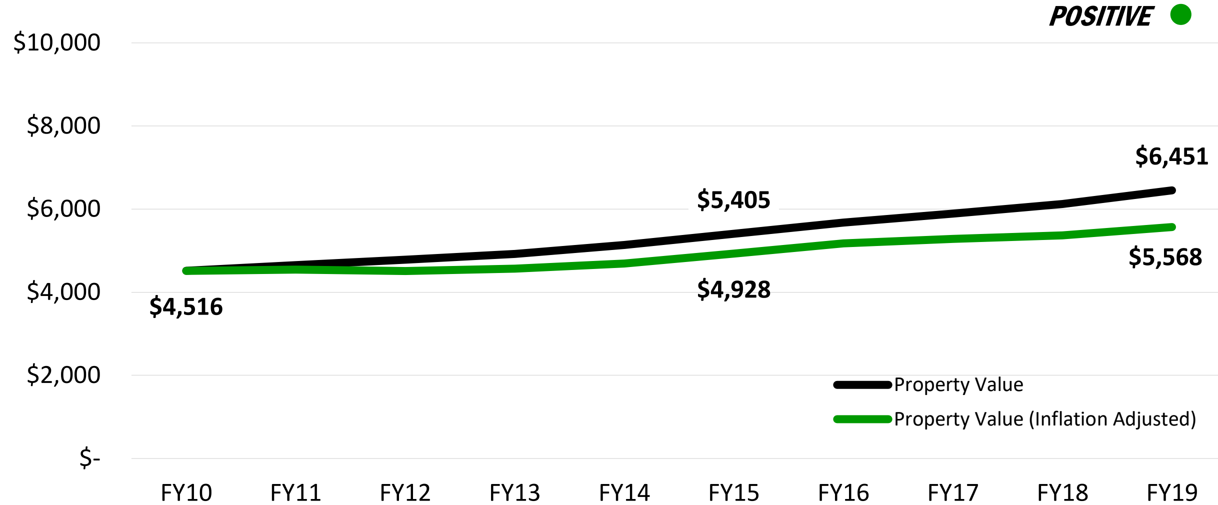
Person Crimes

The chart below is a sub-set of data behind the total number of person crimes per 1,000 residents in the graph on the preceding page. Over the last five years, person crimes per 1,000 residents decreased 5.92%. Assaults were up over the last five years while Robbery, Rape, and Murder was down. In reviewing year-over-year changes, Murder was up and the rest were down.



PROPERTY VALUE

POSITIVE



Formula: Assessed Value / CPI

*Assessed Property Value **increased five consecutive years** establishing a positive trend.*

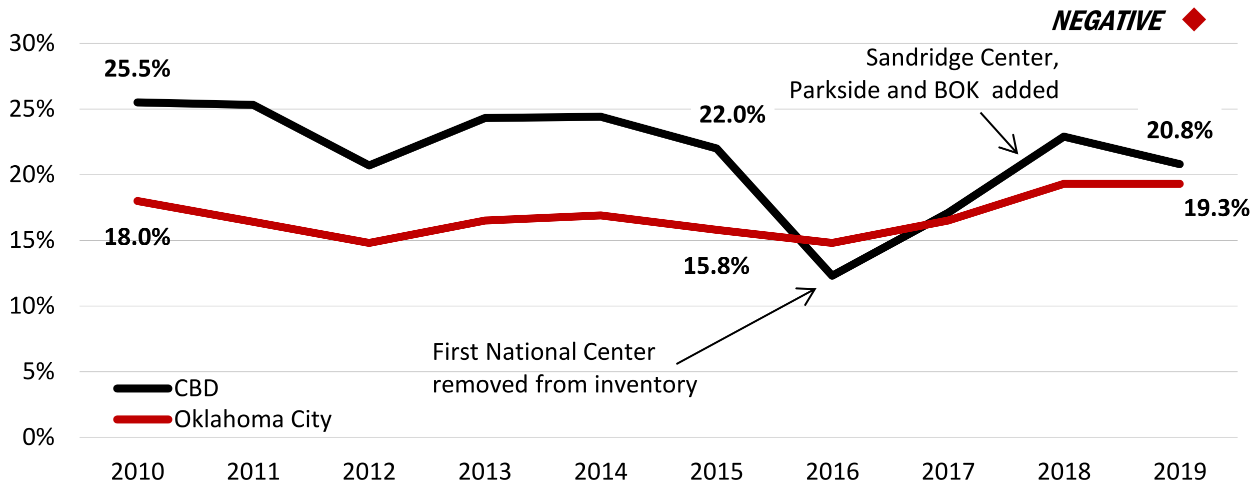
How Can Property Values Affect a Local Government's Finances?

Even for communities that are not heavily reliant on property tax for operations, property values can be a useful sign of the health of the local economy. Population and economic growth will increase property value because demand will drive prices up. A city that is not reliant on property tax but is experiencing declines in property value still has reasons for concern because declines in property value affect revenues for capital improvement and the economic health of the City. Credit rating organizations review the local government's tax base to assess the financial capacity of a local government. A decline in property value could affect the credit rating and borrowing ability of a local government.

Why is This Important to Oklahoma City?

While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City's finances; namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City's debt capacity allowing more capital projects. Oklahoma City's inflation adjusted assessed property value remained flat from FY10 through FY13, and then increased from 1.5% to 5% annually over the next five years. In FY18, growth slowed to 1.58% after adjusting for inflation, but then increased to 3.6% in FY19. Continued growth may be attributed to increased economic activity and population growth.[3] Based on the upward trend of inflation adjusted property values, this has been rated as a positive indicator.

OFFICE VACANCY RATE



Formula: Vacancy Rates from Price Edwards Oklahoma City Office Market Summary[4]

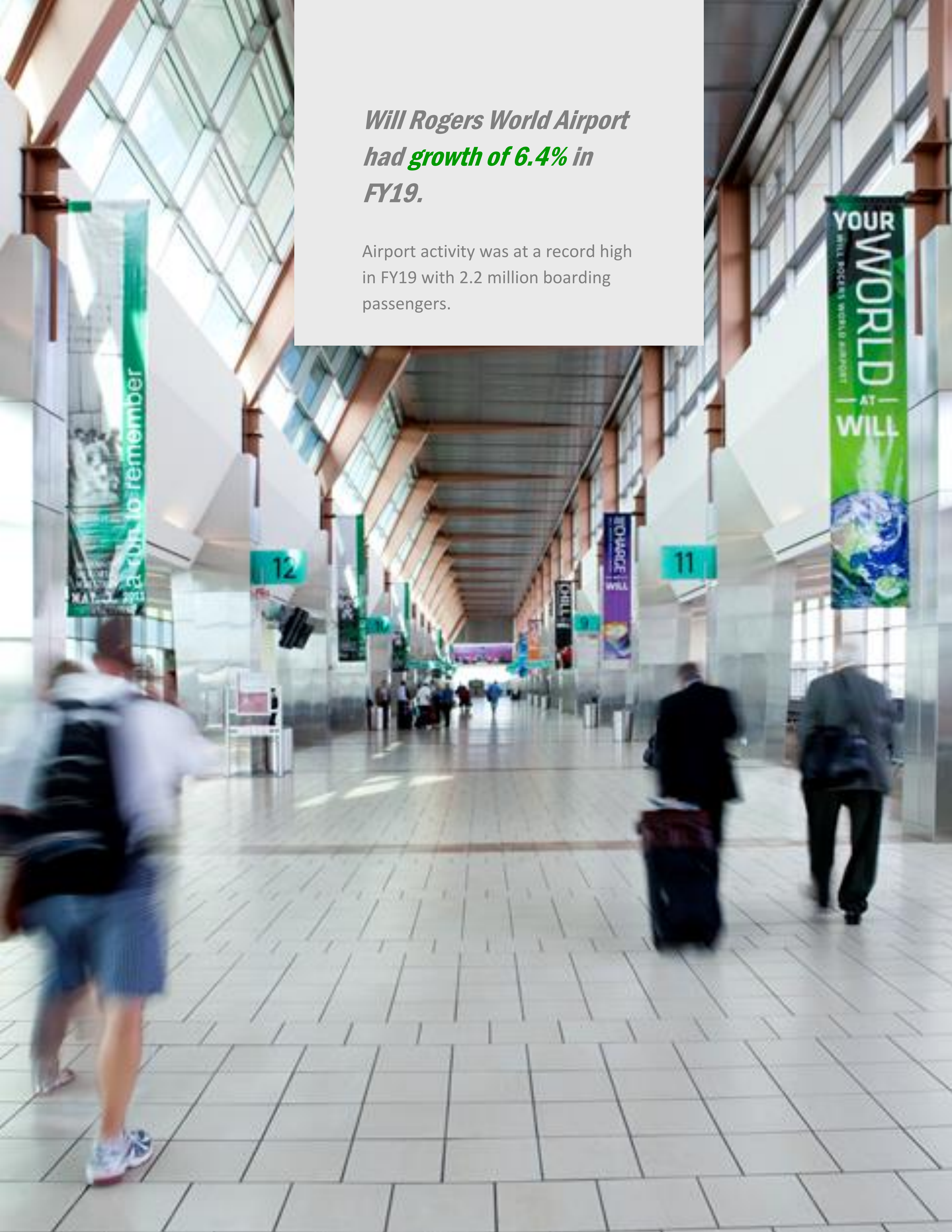
Why is Vacancy Rate an Indicator for Financial Performance?
Tracking changes in vacancy rates for all types of rental property such as residential, commercial, and industrial can provide an early warning sign of potential economic or demographic problems. If a community is an attractive place to live and do business in, then it is reasonable to expect demands for rental property to be high. On the other hand, if an economy is sluggish or declining, increased vacancy rates can be expected.

Why is This Important to Oklahoma City?
For the purposes of this trend analysis, the office vacancy rates for Oklahoma City's central business district (CBD) and the greater Oklahoma City area were examined. If vacancy rates increased to an unhealthy rate, it would have a negative impact on property values and incomes. In 2010, vacancy rates were driven up in response to the recession but improved in 2011 and 2012 as the energy sector absorbed more space while new office space was under construction. Midyear 2019, CBD vacancy rates saw a 2.1% improvement over 2018 with the Greater OKC area remaining flat. Regardless of the slight improvement, the Price Edwards and Company Oklahoma City 2019 Mid-Year Office Market Summary stated *"Despite a more diverse economy than at any point in the city's history, the market remains sluggish. May 2019 Bureau of Labor statistics indicate a citywide unemployment rate of less than 3%. That is terrific news for the city, but it is a concern for the office market going forward. If the Oklahoma City office market can't perform better than at an 80.7% occupancy rate with unemployment at only 2.9%, when can we expect things to get better?."* The significantly higher vacancy rate over the five-year period resulted in a negative rating for this indicator.

Significantly higher vacancy rate over the five-year period for OKC resulted in a negative rating.

*Will Rogers World Airport had **growth of 6.4%** in FY19.*

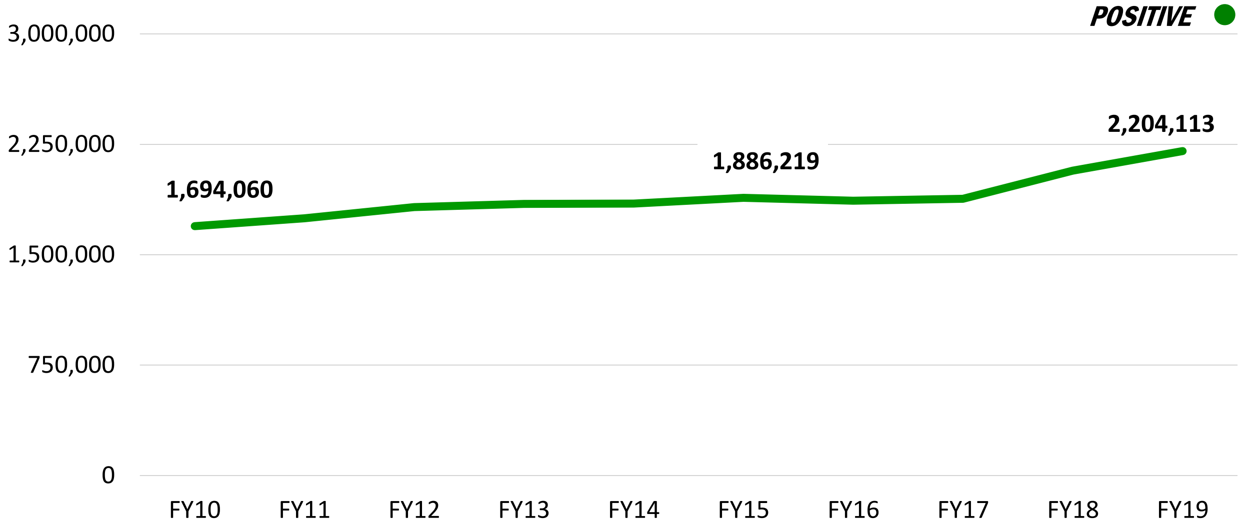
Airport activity was at a record high in FY19 with 2.2 million boarding passengers.



WILL ROGERS WORLD AIRPORT ACTIVITY

POSITIVE

COUNCIL PRIORITY

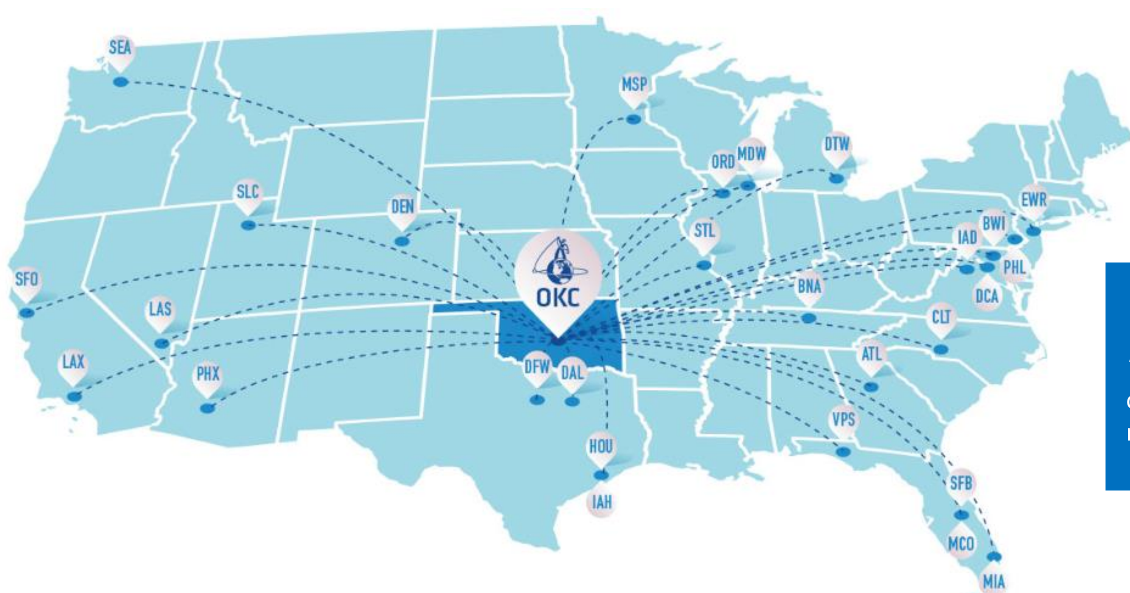


Formula: Annual Number of Passengers Boarding at Will Rogers World Airport

What Does Airport Activity Measure?
The level of airport activity can be a potential indicator for various areas of interest to a local government such as tourism, commerce, and other general business activities.

Why Is This Important to Oklahoma City?
Each of the activities mentioned above can directly affect revenue yields through tax receipts associated with tourism and commerce. Increasing the number of passengers using Oklahoma City's commercial airports is good for the City whether the travel is for business or pleasure. Since FY12 the number of nonstop destinations and airports served at Will Rogers World Airport has increased, stimulating growth in the number of travelers. Passenger activity was at a record high in FY19 with 2.2 million boarding passengers. The rating for this indicator remained positive as the number of boarding passengers has steadily increased over the last five years.

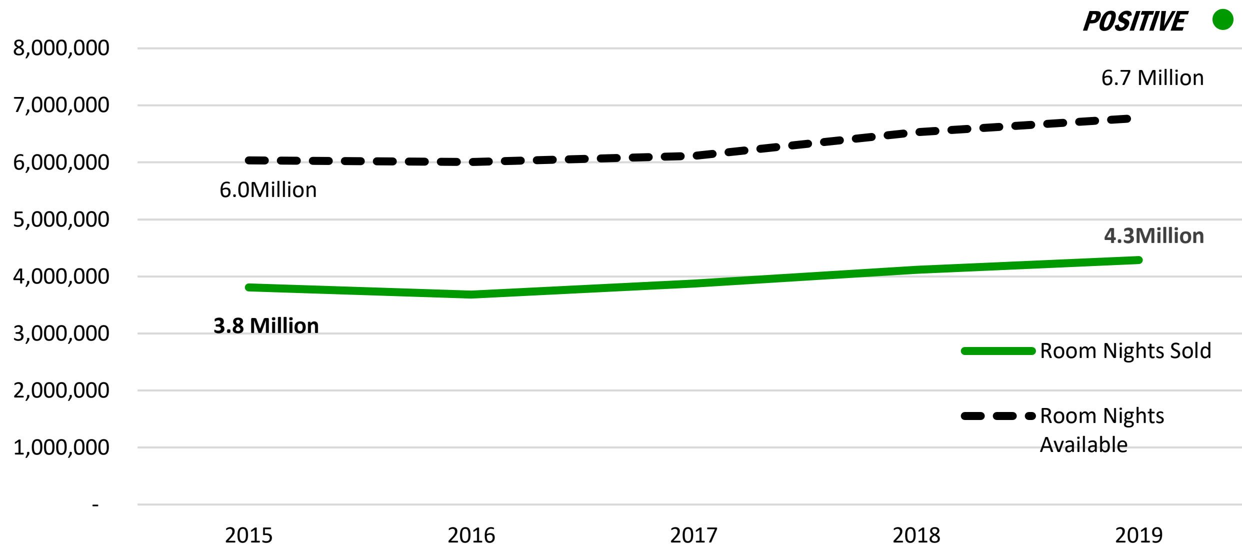
Current Year Passenger Activity
The number of boarding passengers grew 0.6% during the first six months of FY20.



28
cities served non-stop

*On average, **more than 11,000** hotel rooms are sold each night.*

HOTEL ROOM NIGHTS SOLD



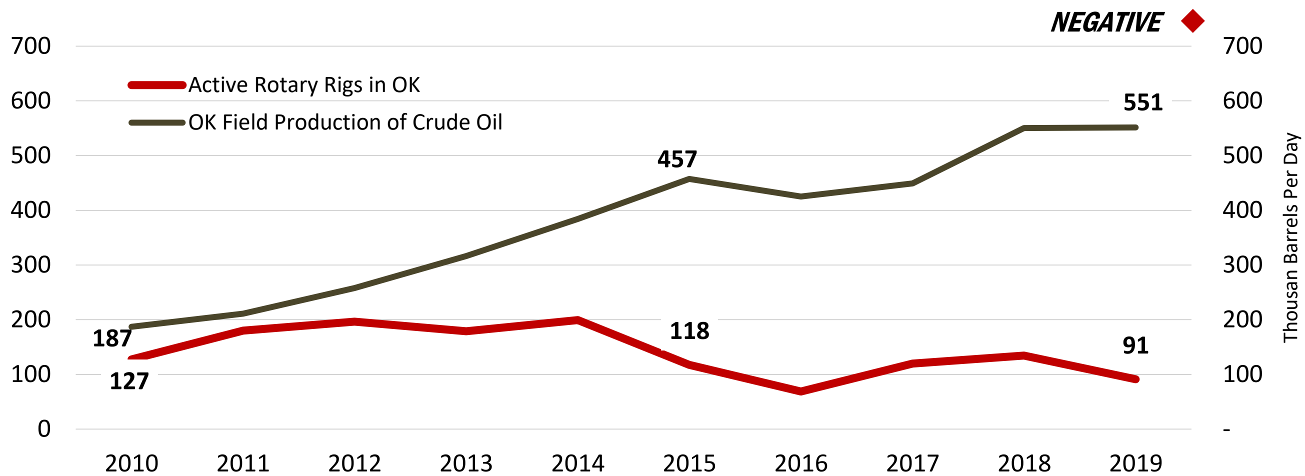
Formula: Number of room nights sold according to Smith Travel Research.

Why is Hotel Room Nights Sold an indicator of Financial Performance?
Tracking hotel room nights sold provides insight on the level of activity in one of our City's growing sectors, tourism. Activity in this sector can grow the local economy as visitors spend money; generating revenue for Oklahoma City that otherwise would not have been earned. The hotel tax and sales tax paid on goods and services while visiting the City stays here where it is used to fund services and amenities for residents of Oklahoma City, while tourists return home. Tourism helps diversify the local economy which can smooth City revenue collections when another sector contracts.

Why is This Important to Oklahoma City?
With tourism there is a multiplier effect in the local economy as visitors tend to spend money in service-oriented businesses such as hotels, restaurants, attractions, and transportation. Tourism dollars grow employment in the leisure and hospitality sector and those businesses and employees reinvest earnings in the local economy. When there is a lot to do and places to stay, more tourists are drawn to the City. Private development is also drawn to the City as desirable amenities contribute to the overall quality of life for employees. The City plays an important role in supporting tourism by providing infrastructure and managing the impact tourism has on the City. In the last 20 years the City had a significant increase in hotel rooms with several new hotels still in various stages of planning and construction. An Omni Hotel, designated as the official convention center hotel, is under construction and will open in early 2021 with 605 guest rooms.

Over the last five years, occupancy has remained steady averaging 63% annually. Growth has come from a 13% increase in room nights available, growing from 6.0 million room nights available in 2015 to 6.8 million room nights available in 2019. The number of room nights sold (the data being measured and reported on for this indicator) increased by 13% over the last five years or from 3.8 million to 4.3 million. In FY19, there was an average of 11,747 room nights sold each night. As the number of hotel rooms increased, occupancy remained steady, resulting in an increase in the number of hotel room nights sold and a positive rating for this indicator.

ACTIVE DRILLING RIGS



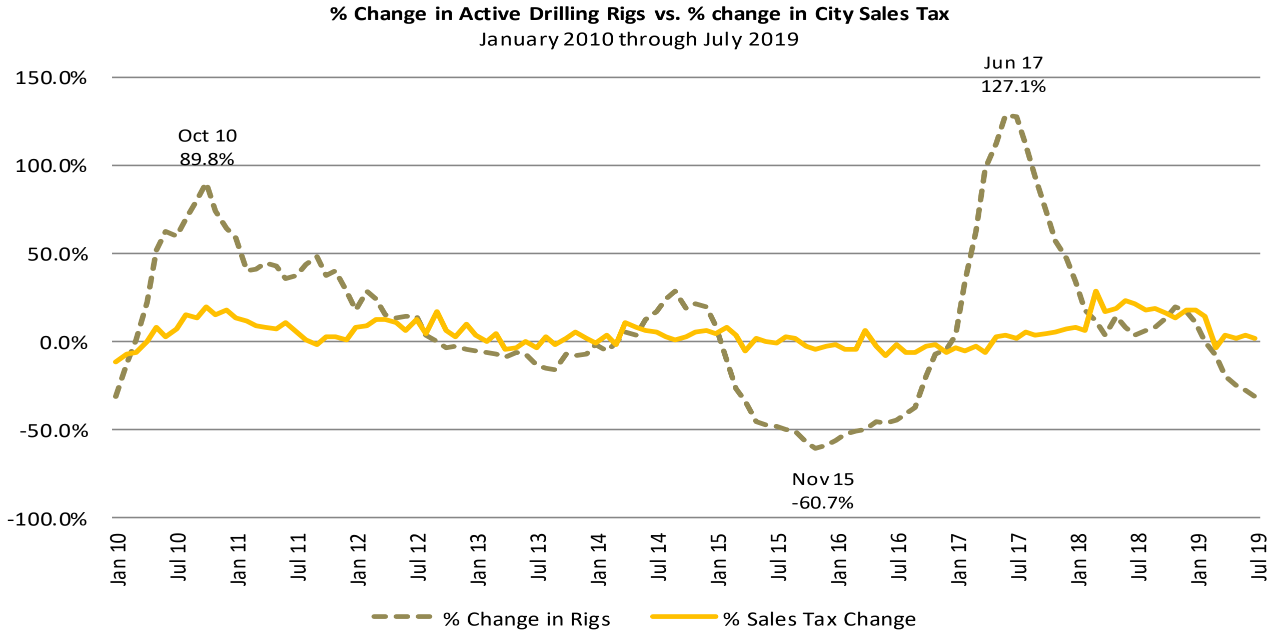
Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated[5] Field production of crude oil from Energy Information Administration (EIA)

Why are Active Drilling Wells an Indicator for Financial Performance?
Tracking oil and gas activity in the state provides insight on the level of activity in one of our state's most important sectors. Activity in this sector is especially dependent on prices for oil and natural gas. If energy-sector activity is increasing the effect on the local economy will be positive. Likewise, a decline in activity will be detrimental to the local economy. Rig count has been a reliable metric for oil industry growth for many years, proving to be a leading indicator to sales tax performance as the two have historically moved in the same direction. Now that operators can produce more from a single well, there are fewer rigs. While we continue to rely on this metric for now, we are also beginning to seek out new metrics that may be just as informative as to the oil and gas activity in the state, such as the daily field production of crude oil in Oklahoma which has been added to the graph in black.

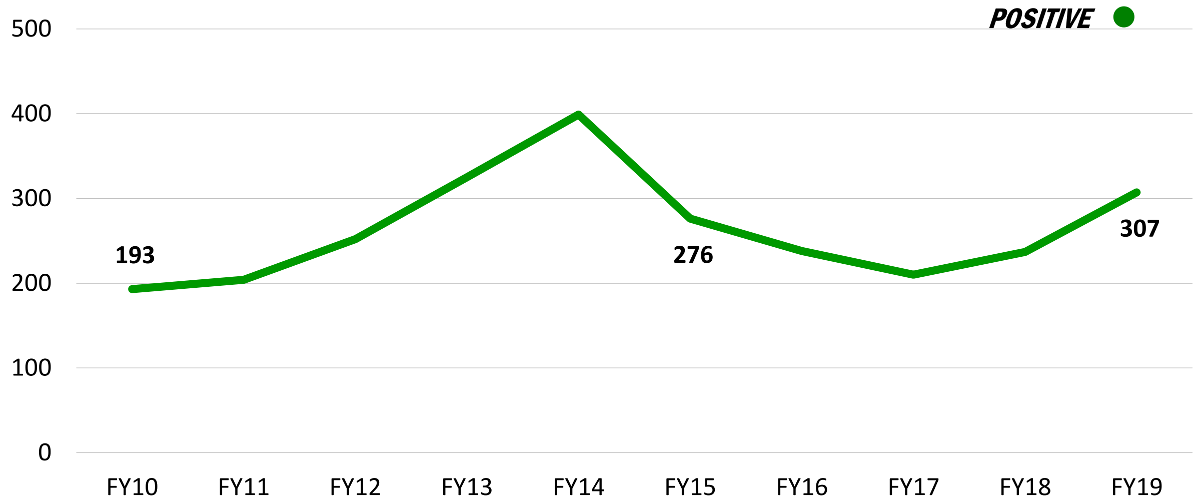
Why is This Important to Oklahoma City?
The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A study[6] conducted by Dr. Mark Snead for the Oklahoma State Chamber of Commerce indicates that the oil and gas sector is as big a share of statewide earnings as it was at the height of the oil boom in 1982. The steep decline in energy prices that occurred from the last half of 2008 through late 2009 resulted in a dramatic decline in energy sector activity in Oklahoma in 2009. As oil prices recovered, so did Oklahoma's active rig count with drilling activity increasing in calendar years 2009 through 2014. As oil prices began to drop in mid-2014, a drop in rig count followed beginning in February 2015 and continued through June 2016. As rig counts started to improve in 2017 and 2018, so did crude oil production. However, oil prices sank in 2019, and there was a big decline in rig counts although crude oil production remained flat. Due to the decline of oil prices, rig counts and projected negative effects on the economy, this indicator was changed to a negative rating.

Note: 2019 OK Field Production of Crude Oil is average from January through October 2019.

Active Drilling Rigs and City Sales Tax



PRIVATE DEVELOPMENT PLANS



Formula: Sum of Plans Submitted to the Public Works Department Engineering Line of Business for Sanitary Sewer, Paving, and Drainage[7]

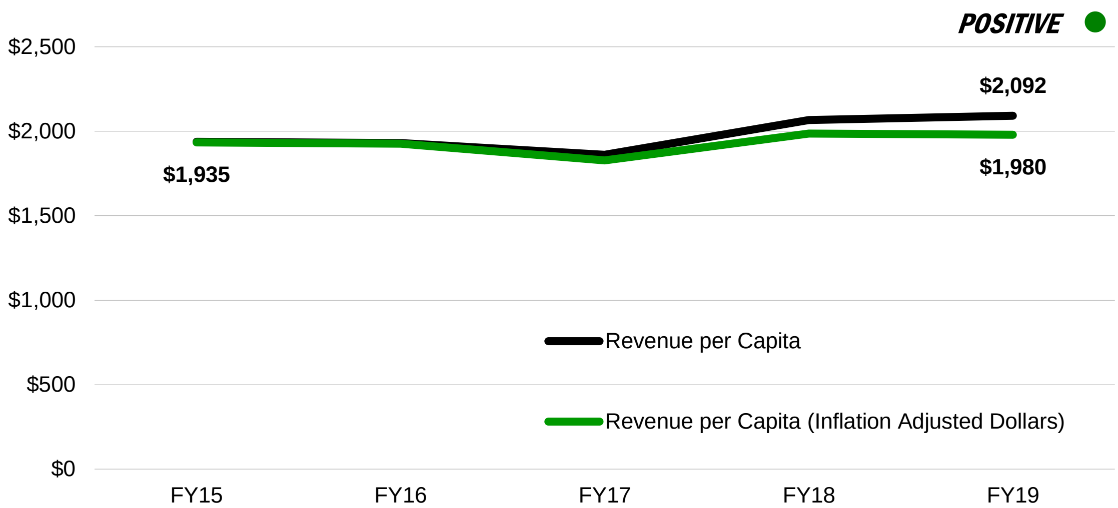
Why is the Number of Private Development Plans Submitted for Approval an Indicator for Financial Performance?

Developers must receive approval for their plans for the infrastructure (paving, water lines, drainage, and sanitary sewers) in their development before construction on the development can proceed. This step in the development process is a key indicator of future activity. While building permits provide a look at current activity in the development sector, approval of private infrastructure plans is a key early step in the development process and provides an indication of the direction of future building activity.

Why is This Important to Oklahoma City?

Private development plans submitted are a key indicator of the confidence local developers have in the economy. These permits set the stage for spending on infrastructure in both residential and commercial developments which precedes spending on construction. An increase in the number of plans submitted shows a level of confidence by developers in the prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. The last two years have seen increases and FY19 was above FY15 resulting in a positive rating. Staff will continue to monitor this indicator to see if the trend continues

REVENUE PER CAPITA



Formula: Operating Revenues (Inflation Adjusted Dollars) / Population

What is Revenue Per Capita?

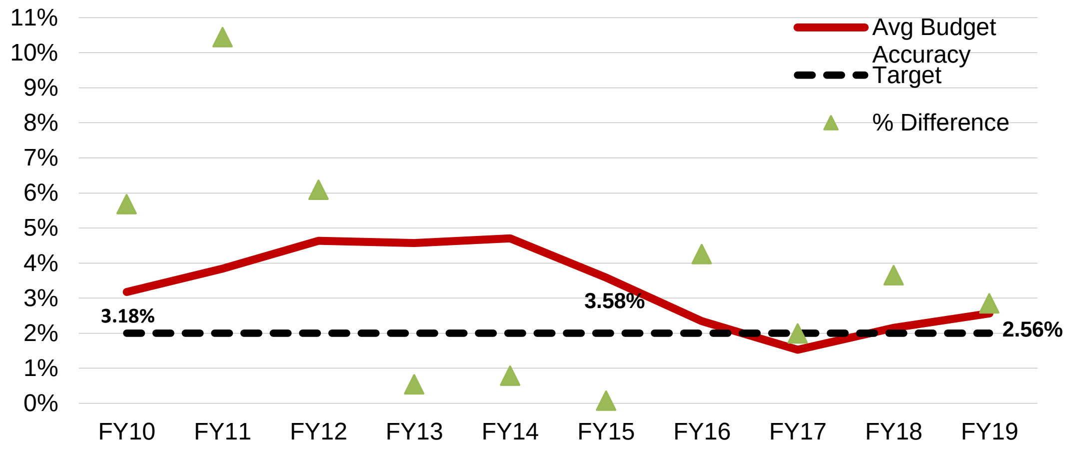
Per capita revenue shows changes in operating revenues relative to changes in population size. As population increases, revenues and the need for services can be expected to increase proportionately. Therefore, the level of per capita revenues should remain at least constant in real terms. When per capita revenues decrease, a local government needs to either find new revenue sources or reduce expenditures to maintain existing service levels. This assumes that the cost of service is directly related to population size.[8]

Why is This Important to Oklahoma City?

This issue is delicate since revenue per capita is a reflection of the financial impact of the City's taxes and fees on residents but is also necessary to provide the level and quality of services residents desire. Over the five-year period, revenue per capita increased 9.4% after adjusting for inflation. There were two straight years of decline in FY16 and FY17 due largely to a decline in primary government general revenues (General Fund Sales Tax, Service Charges, etc.) and operating grants and contributions. Although there was a dip, the indicator was rated positive due to the five-year trend. The City will continue to monitor existing revenue sources and look for new revenue possibilities to ensure revenue keeps up with population and inflation growth in the coming years.

REVENUE ACCURACY

NEGATIVE ◆



Formula: Rolling 5-year average of percentage difference between budget and actual general fund revenue

Determining Revenue Accuracy

This indicator examines the difference between revenue projections and revenues received in the General Fund during the fiscal year. Significant continued variances in revenue from projected amounts, whether the discrepancy is an overage or shortage, can be reason for concern. Either scenario could indicate a changing economy or inaccurate forecasting techniques. Additionally, credit rating organizations such as Standard & Poor's use this indicator to review the quality of financial management in a local government since variances between budget and actual results are considered indicative of management's financial planning capabilities.[9] The worst-case scenario for this indicator would be increasing revenue shortfalls.

Why is This Important to Oklahoma City?

Keeping this variance to a minimum means services have not been unnecessarily reduced because of a perceived shortage in revenue that did not occur; or that new services were not established that could not be maintained because revenues failed to meet projections.

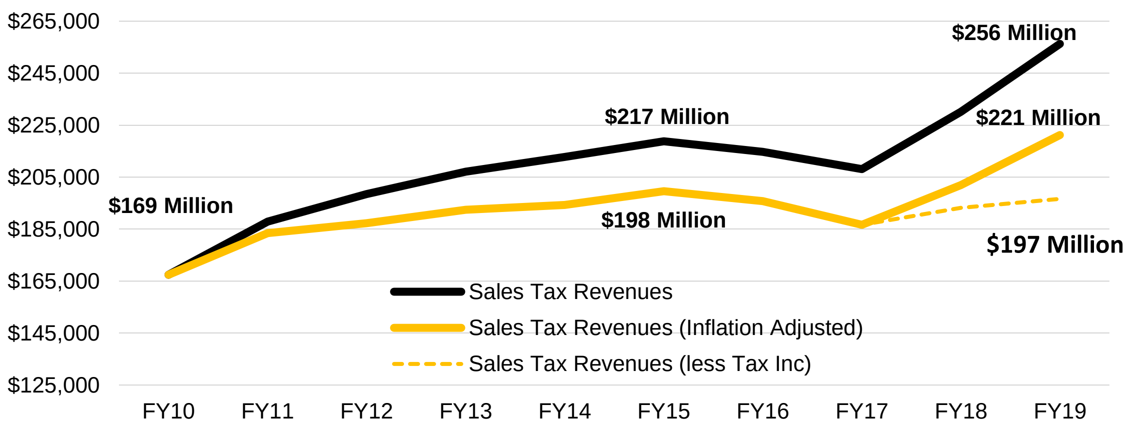
In FY13, FY14, FY15 and FY17 revenue collections were within 2% of projections. However, in FY10 Oklahoma was still feeling the impact of the recession and collections came in 5.68% below projections. Conservative projections in FY11 and FY16 were exceeded as Oklahoma City rebounded strongly from the recession; A downturn in the local economy due to the energy sector contraction resulted in FY16 collections falling 4.26% below projections and FY17 collections falling 1.99% below projections. In FY18 and FY19 collections exceeded projections by 3.65% and 2.84%, respectively, as the local economy returned to growth and tax collections from online sales began. The average absolute variance over the last five years was 2.56%, which was above the City's stated goal of having revenues within 2% of projections; therefore, this indicator was rated negative. To be rated positive, collections need to consistently trend closer to projections.

Current Year Activity

In the current fiscal year, General Fund revenue was 0.6% below projections through December, which is within the target range of 2%.

SALES TAX REVENUES

NEUTRAL



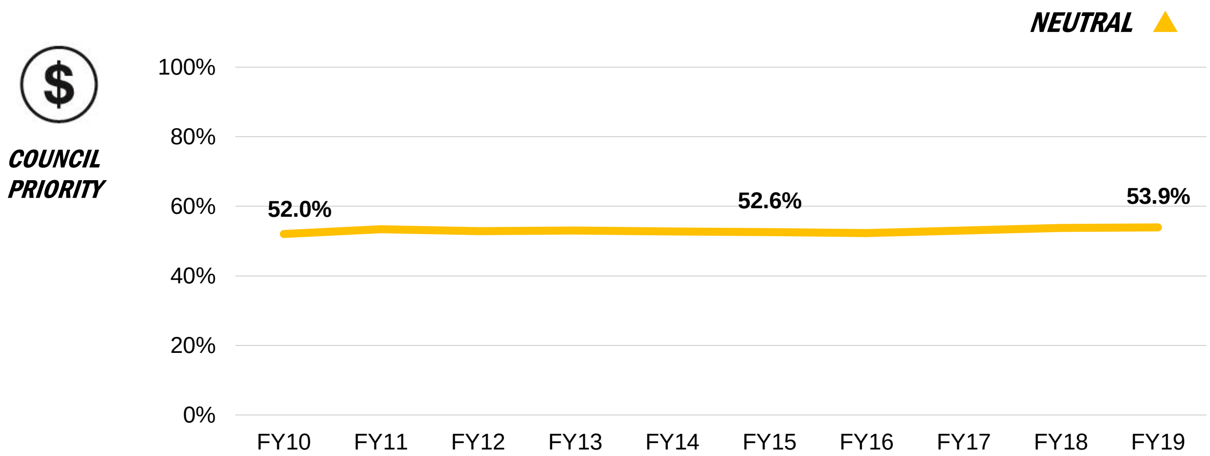
Formula: Sales Tax / Consumer Price Index (2010 used as base year)

What Tax Revenues are Included in this Indicator?
Sales Tax, being the largest and most significant source of tax revenue, is considered by itself for this forecast. For an accurate analysis, Sales Tax revenues were identified in both constant and current dollars.

Why is This Important to Oklahoma City?
With a sales tax rate increase in FY18, Sales Tax accounted for 54.3% of all General Fund revenue in FY19. A change in growth rate can impact the City's operations and services provided to citizens. Changes in Sales Tax can have a number of causes including state or local economic health, sales tax rate changes, changes in population, the movement of retail operations to and from other communities, and/or Sales Tax payers moving their base of operations to other jurisdictions.[10] The chart above shows declines in FY16 and FY17 as the local economy was impacted by a contraction in the energy sector. FY18 growth was strong at 6% base growth, plus a ¼ cent tax rate increase that was in effect for the last 3-1/2 months of the fiscal year. That growth continued in FY19, and after adjusting for inflation, sales tax revenue increased 10.9% over the last five years, or $21 million due in large part to the ¼ cent tax rate increase. If the tax rate increase was excluded and adjusted for inflation, sales tax would have declined by 1.47% over the last five years, which is why the indicator was rated neutral.

Current Year Activity
The Oklahoma City economy has continued to grow with 31 of the last 32 months of sales tax growth until January 2020, which experienced a decline of 5.5%. In the current fiscal year base sales tax has grown 2.5% through January and is projected to grow at 1.25% the remainder of the fiscal year. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

SALES TAX AS PERCENTAGE OF GENERAL FUND



Formula: Sales Tax Revenue / All General Fund Revenue

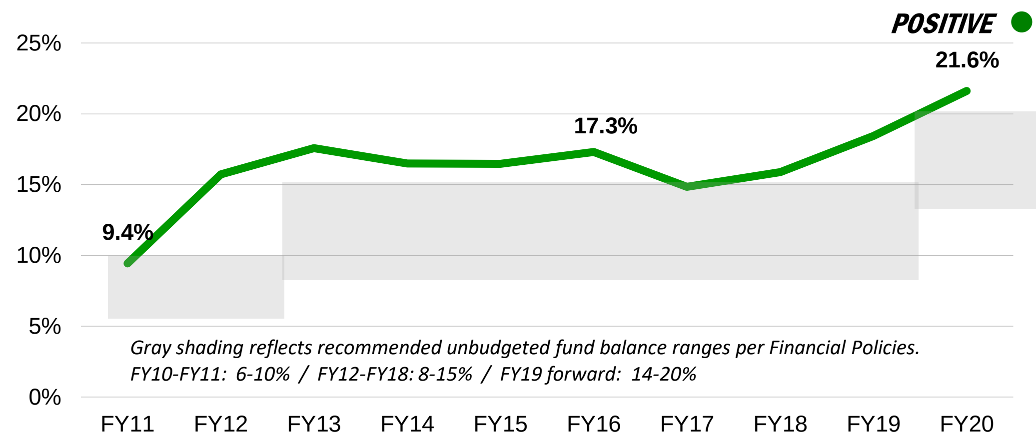
Why is Sales Tax as a % of General Fund Revenue an Indicator for Financial Performance?
Sales Tax revenue was collected at a rate of two and one-quarter cents per dollar for Oklahoma City's General Fund. In economic terms, Sales Tax is considered an elastic revenue source; meaning that it changes incrementally with changes in the economy.[10] When the economy is strong, Sales Tax revenues grow. Whereas, when the economy is slowing Sales Tax, revenues decrease. In contrast, inelastic revenue types, such as property taxes, are less responsive to changes in the economy. For example, the revenue generated from property tax, being based on assessed valuation, generally remains stable regardless of the direction the economy is moving in the near-term because it takes longer for economic activity to impact assessed values.

Why is This Important to Oklahoma City?
Ideally, Oklahoma City, or any municipality, needs diversity in its revenue sources. It is beneficial that Sales Tax contributes a significant part of Oklahoma City's revenue mix so that in times of economic growth and/or inflation the revenue yield can increase to keep pace with demand and higher prices. However, relying too much on Sales Tax leaves the City more vulnerable to economic downturns since other, more stable revenue sources comprise a smaller portion of the City's total revenue. Although Sales Tax increased as a percent of total General Fund revenue over the five-year period, the increase was due to a tax rate increase rather than a less diverse revenue mix which is why the indicator remained as a neutral rating. Staff will continue to review fee levels and propose new revenue sources to move the City toward a more diversified revenue mix.

Current Year Activity
In FY20 sales tax is projected to be 55% of all General Fund revenue by year end.

FUND BALANCE

COUNCIL PRIORITY



Formula: Unbudgeted Fund Balance / Budgeted Revenues

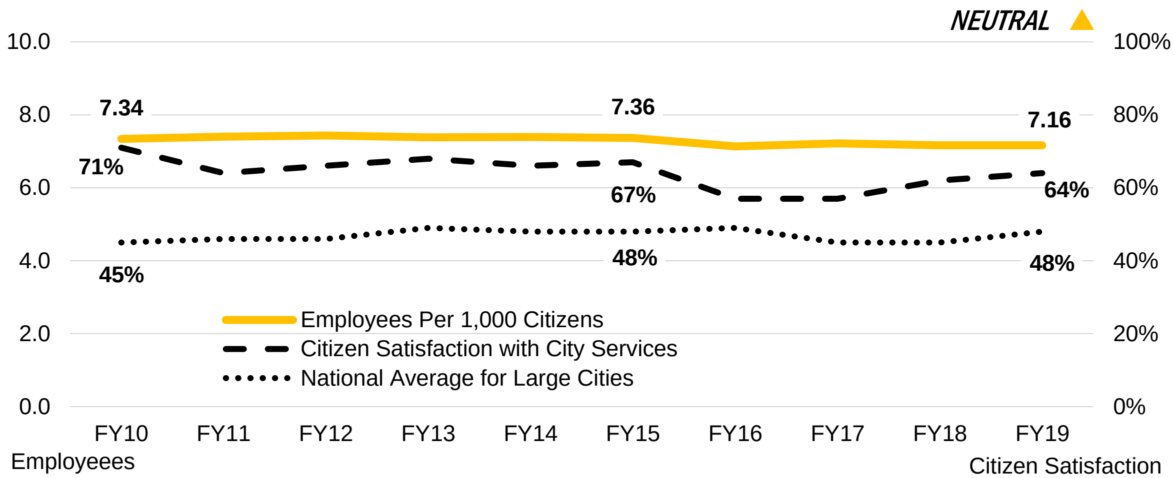
What is fund balance?

At the most basic level, fund balance is the money left at the end of the year after all revenues have been received and all expenditures have been made. The portion of fund balance not budgeted remains as an unbudgeted reserve. The size of a local government's fund balance can affect its ability to withstand financial emergencies and accumulate funds for capital projects. Usually, a local government will attempt to operate each year with a surplus to maintain a positive fund balance. An unplanned decline in fund balance or continuing subsidies from fund balance to cover operating expenses is an indicator the government will not be able to meet future needs.

Why is This Important to Oklahoma City?

Prior to FY12, the target range for unbudgeted fund balance was 6-10% of the General Fund budget. In FY12, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. In FY18, City Council amended the financial policies and established a range of 14-20% for unbudgeted fund balance which is equivalent to a minimum of two months of operating costs and follows best practices established by the Government Finance Officer's Association (GFOA). Significant revenue shortfalls caused by downturns in the economy can result in the use of fund balance to supplement recurring revenue to maintain services. Having fund balance to call on during the recessions or downtowns reaffirms the importance of having an adequate reserve. Periodically, City Council has elected to use excess fund balance to fund street resurfacing and capital projects. Even with the use of fund balance and revenue declines in FY16 and FY17 the percent of unbudgeted fund balance has remained at the high end of ranges set by City policy leading to a positive credit rating.

EMPLOYEES PER 1,000 CITIZENS



Formula: Number of Municipal Employees / Population / 1000

What Does Employees per 1,000 Citizens Measure?

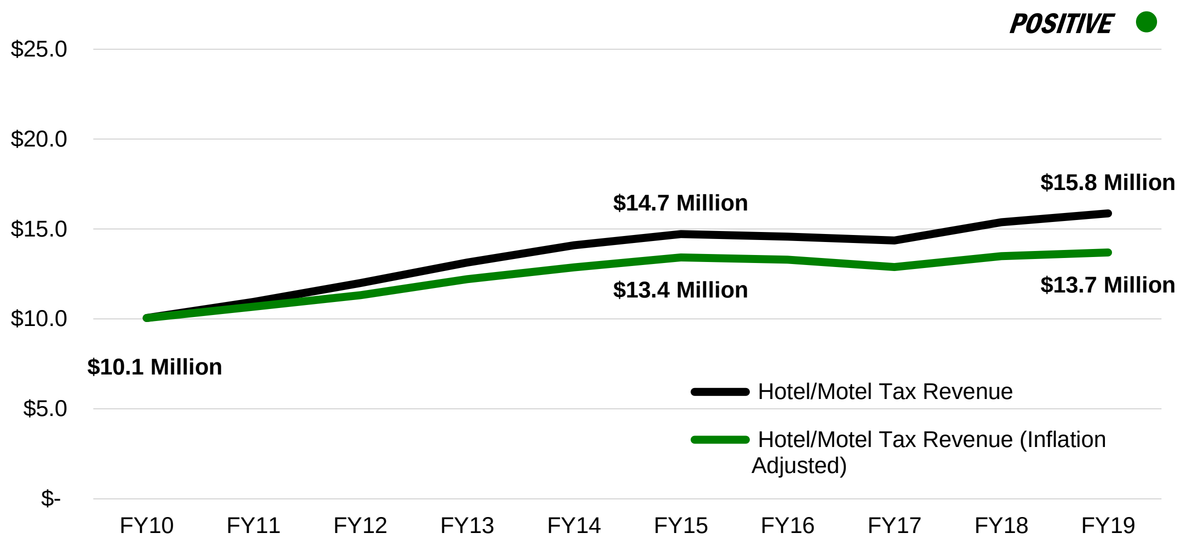
Personnel costs are a major portion of a local government's operating budget, therefore plotting changes in the number of employees is important for estimating trends that can affect expenditures. Changes in the number of employees can be an indicator of whether expenses are going to grow faster or slower than population, assist in determining if government is becoming more or less labor intensive, and if personnel productivity is increasing or decreasing.[11]

*Employee count grew at a slower pace than population, but the employee per 1,000 citizens **ratio remained steady** over the five-year period.*

Why is This Important to Oklahoma City?

The number of employees per 1,000 citizens provides a quantitative measure of government efficiency, while citizen satisfaction provides a qualitative measure of government efficacy. Population grew 5.5% over the past 5-year period and the number of employees grew by 2.7%. Although employee count grew at a slower pace, the ratio remained steady resulting in a neutral rating. To ensure that the ratio of employees to population is enough to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The national average for citizen satisfaction with city services in other large cities (250,000+) in the U.S. was 48%. The most recent citizen survey, completed in August 2019, reported 64% of citizens were satisfied with city services; well above the national average. The FY20 rating of 64% improved from last year's rating of 62% but was lower than 5-years ago when 67% of citizens were satisfied, and lower than 10-years ago when 71% were satisfied. Although we outperformed the national average, we lost ground from our previous ratings. Had citizen satisfaction remained steady or improved, it would have pushed this indicator to a positive rating.

HOTEL TAX



Formula: Hotel Tax / CPI

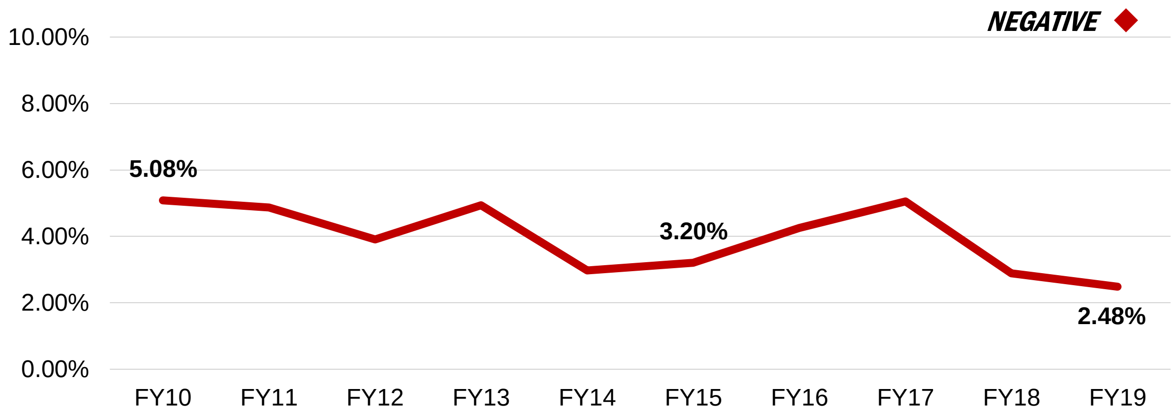
Why is Hotel Tax an indicator for Financial Performance?
Hotel Tax is a financial indicator because it gives an indication of both tourism and business activity. While tourism is a growing sector for Oklahoma City, the overall indicator is more reflective of business activity as business travel still dominates the Oklahoma City market.

The Hotel Tax rate for Oklahoma City is 5.5%. Of the overall total, 2% is dedicated to convention and tourism promotion and is used to fund a contract with the Oklahoma Convention and Visitor's Bureau; 3% is dedicated to capital improvements at the State Fairgrounds and the repayment of bonds used to finance those improvements; and 0.5% is dedicated to sponsoring or promoting events recommended by the Convention and Visitor's Commission.

Why is This Important to Oklahoma City?
Hotel Tax for Oklahoma City saw a decline of 1% in FY16 and 1.5% in FY17 as the local economy was impacted by the energy sector contraction. In FY18, growth was 7.1%, as more rooms were added to the market and occupancy rates remained steady. In FY19, growth continued at 3.2%. In terms of inflation adjusted dollars, Hotel Tax revenue grew 2.0% over the last 5-years and 36.24% over the last 10 years. The strong recovery from the FY09 and FY10 recession, a slight impact from the energy sector contraction in FY16 and FY17, growth in FY18 and FY19 and growth over the five-year period, after adjusting for inflation, led to a positive rating for this indicator.

Current Year Activity
Hotel Motel Tax grew 2.75% through November 2019.

GRANT REVENUES



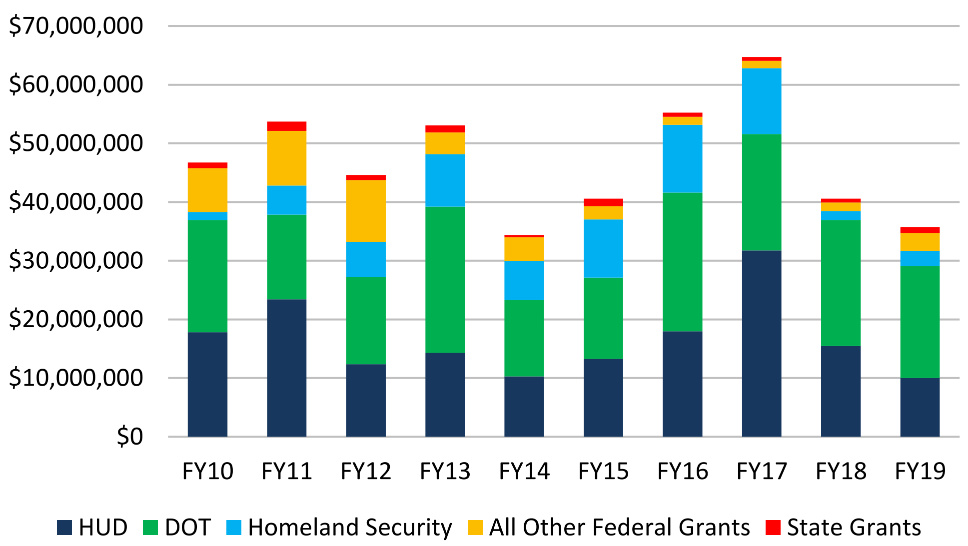
Formula: Grant Revenues / Operating Revenues

What are Grant Revenues?
Grant revenues generally come from state and federal agencies for specific purposes. An overdependence on grant revenues can be harmful – especially during economic downturns when Federal and State governments struggle with their own budgets. Nevertheless, a municipality may want to maximize the use of grant revenues consistent with its service priorities.[12] The primary concern is to understand the local government's vulnerability to reductions of such revenues, and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

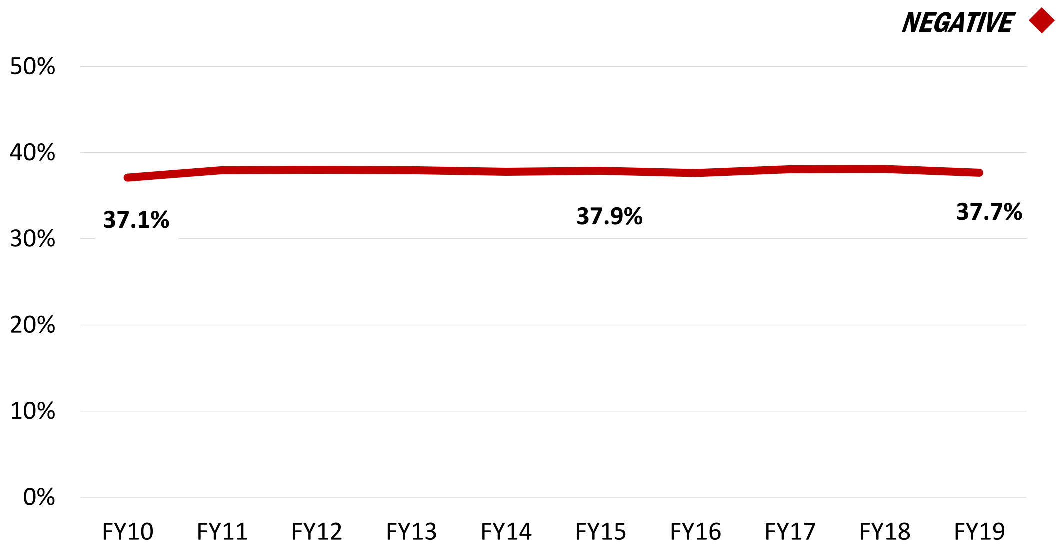
Why is This Important to Oklahoma City?
Without grant funds, many of the social services and capital project programs funded by the grants would cease. Some grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. Grant revenues, as a percentage of operating revenues, typically remains in the 4% to 5% range. In FY14, Federal and state grant funding was at its lowest level since 2001, but gradually returned to the 4-5% range, before dropping again in FY18 due to $24.2 million in disaster recovery grants coming to an end. The decline to less than 3% with no sustainable increases in the five-year period resulted in a negative rating for this indicator.

The Draper Water Treatment Plant was knocked off-line during the May 2013 tornado resulting in residents and businesses being unable to use water as crews worked to restore electricity to the plant. Emergency Generators, funded by Federal Disaster Recovery Grants, were installed at the plant to ensure uninterrupted water service in the future.

Grant Revenue by Granting Agency



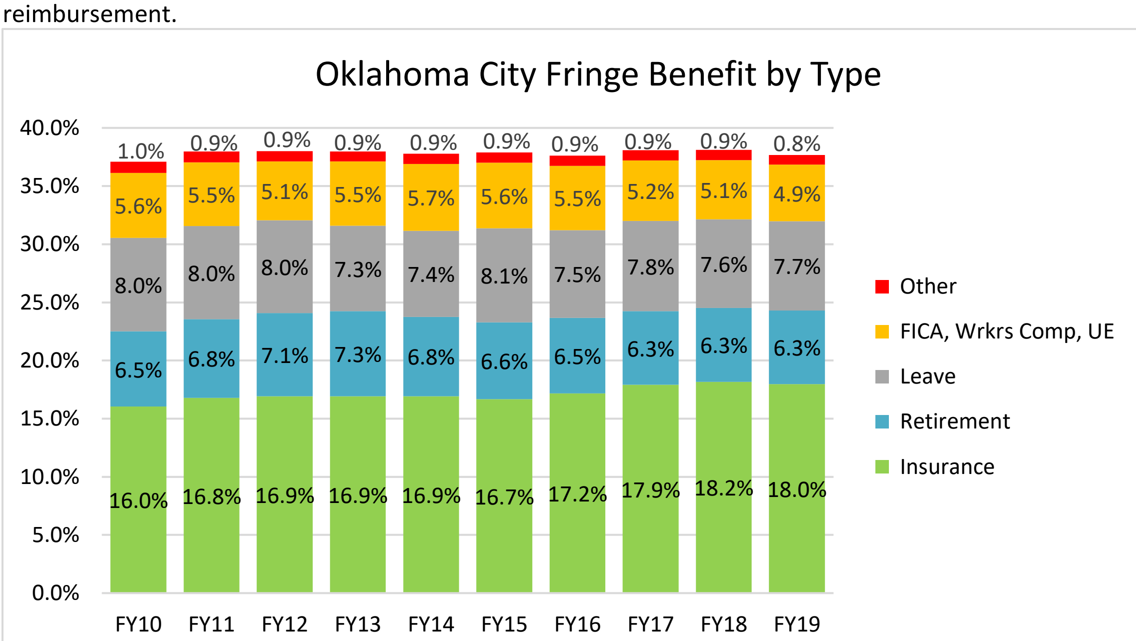
FRINGE BENEFITS



Formula: Fringe Benefit Expense / Compensation (Benefits + Pay)

What are Fringe Benefits?

The most common form of fringe benefits is health and life insurance, retirement plans, paid vacation and sick leave, benefits required by law such as an employer's contribution to Social Security and Medicare (FICA), unemployment (UE), and worker's compensation. In addition, there are other benefits such as uniform and tool allowances, parking, and tuition reimbursement.

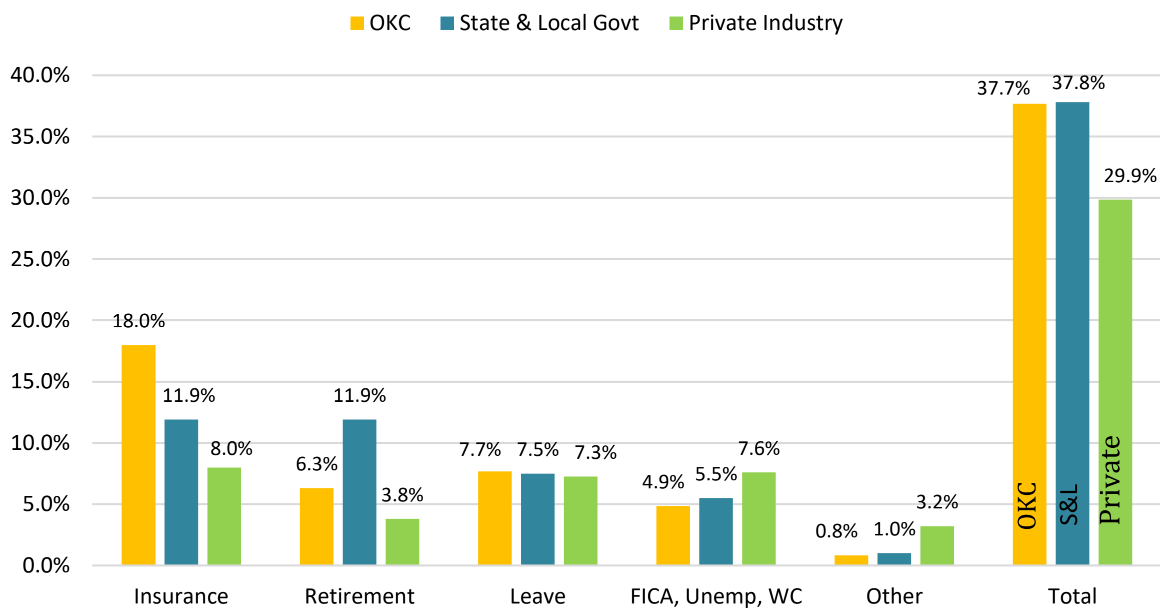


Why is This Important to Oklahoma City?

Benefits are a significant share of operating costs and are more than 1/3 of employee compensation. In the General Fund, insurance is the second largest budgeted expense and is 10% of the FY20 expenditure budget. Staff has worked to keep benefit cost increases from growing too fast through initiatives such as higher co-pays on health plans, additional premium sharing and an employee medical clinic to provide primary care services. The analysis included contributions made for retiree health insurance as a fringe benefit. Post-employment health insurance is currently made primarily on a pay-as-you-go basis. This differs from advance funding, which is the method used for pension contributions. The pay-as-you-go basis only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. Fringe benefit costs, as a percentage of total compensation, have been increasing and were higher when compared with other state and local governments and the private sectors resulting in a negative rating for the indicator.

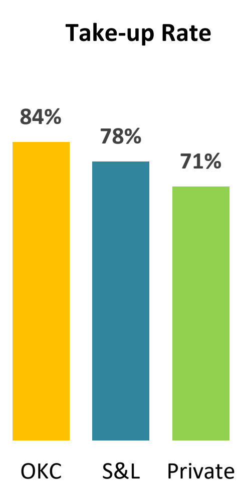
How Oklahoma City Compares

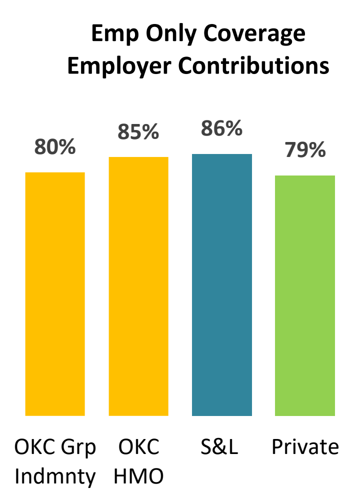
To put Oklahoma City's fringe benefits package into context, we compared it against results from the Bureau of Labor Statistics (BLS) benefits survey. Oklahoma City was slightly lower overall when compared to state and local governments (S&L), but significantly higher than the private sector, especially on insurance.

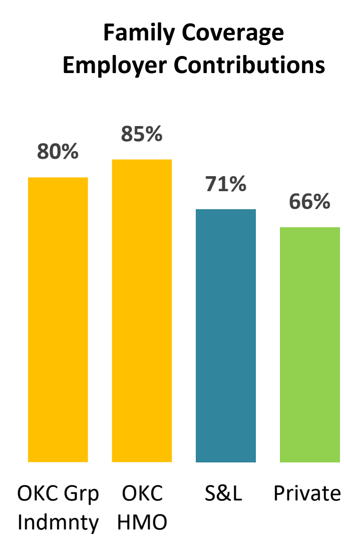


A Closer Look at Health Insurance

The single largest difference for insurance was premium sharing on family coverage. Oklahoma City shares a higher percentage of family coverage, which may be a driver behind the higher take-up or participation rate for Oklahoma City.

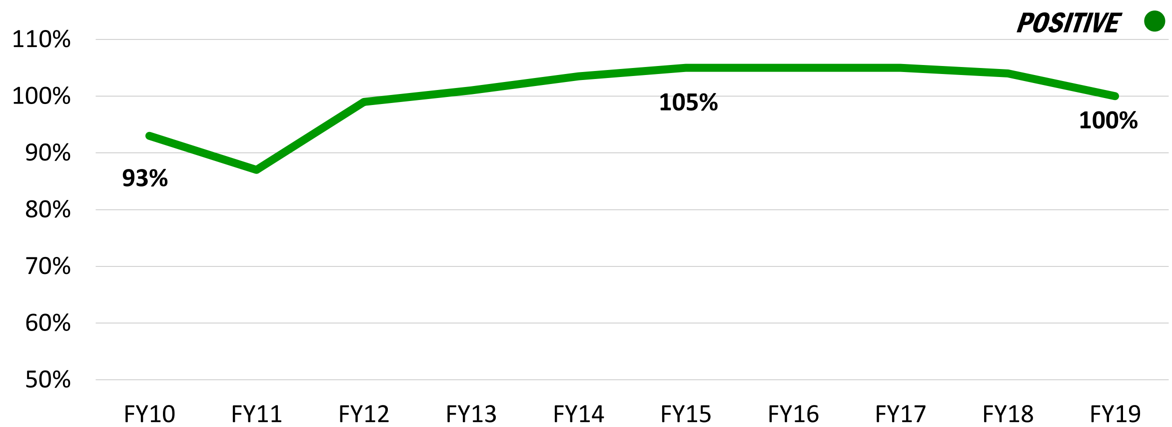






PENSION FUNDING RATIO

Oklahoma City Employee Retirement System (OCERS)



Formula: Ratio Provided and Calculated by Pension Plan Actuaries

What is the Pension Funding Ratio?

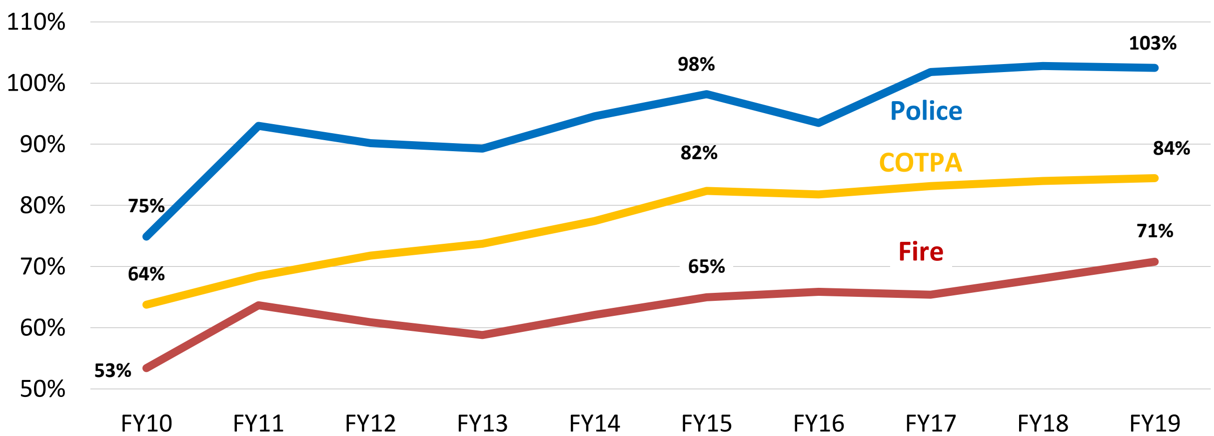
The funding ratio for a pension measures the funding progress of the plan by expressing the actuarial value of assets as a percentage of the actuarial accrued liability. A pension is fully funded if this ratio is equal to or greater than 100%. For those plans that are not fully funded, this ratio should increase over time until fully funded. The actuarial accrued liability is the present value of the projected cost of pension benefits earned by employees. Simply stated, it is the dollar amount that is required to be in the plan today with an assumed rate of return that would satisfy future benefits of current participants (employees and retirees). The actuarial assets are calculated using a smoothing method that allocates market gains and losses over a four-year period so that fluctuations in the market are not immediately recognized.

Why is This Important to Oklahoma City?

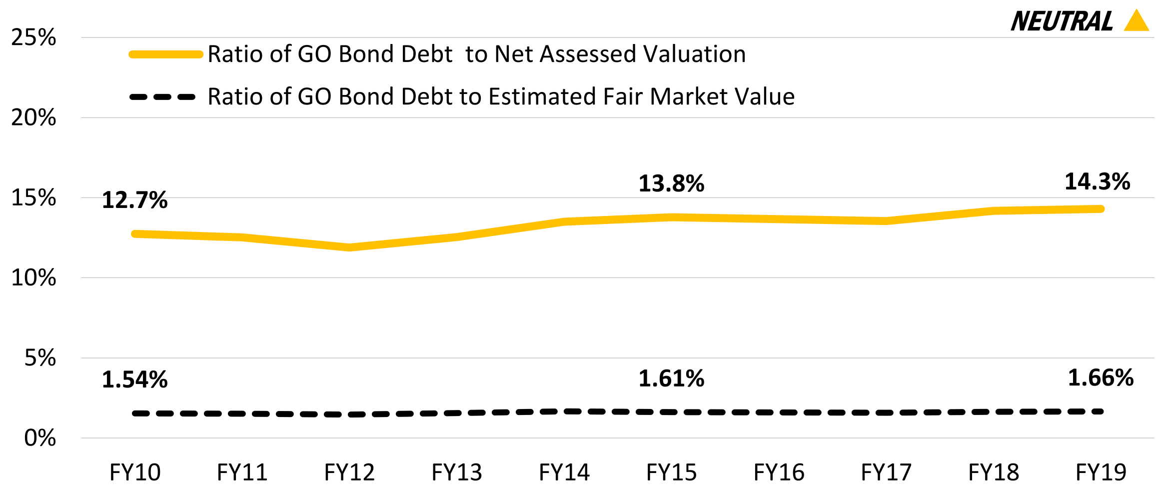
The Oklahoma City Employee Retirement System (OCERS) is the primary pension system for many City employees. Fire and Police uniform employees are covered by state-operated pension systems, and Central Oklahoma Transit and Parking Authority employees are also covered by a separate pension system. In calendar year 2011, the OCERS actuarial funding ratio dropped to 87%, marking the third straight year that the system not fully funded. The severe market downturn in 2008 reduced the valuation of plan assets and because the losses are spread over several years it impacted returns in the succeeding years. In response, the OCERS Board made some plan changes including a reduction in presumed cost of living adjustments in future years. Based on the return to funding at or above 100% for the last six years the indicator is rated as positive. The City continues to make the actuarially recommended contributions to OCERS.

Other Pension Systems

Fire and Police uniform employees are covered by state-operated pension systems. Central Oklahoma Transit and Parking Authority employees are covered by a separate pension. All three pension systems continue to move in the right direction as the City continues to make the actuarially recommended contributions to all pension systems.



LONG-TERM DEBT



Formula: General Obligation Bonded Debt (Bonds Outstanding as of June 30 less Reserve) / Net Taxable Assessed Value

How is Long Term Debt Measured Here?

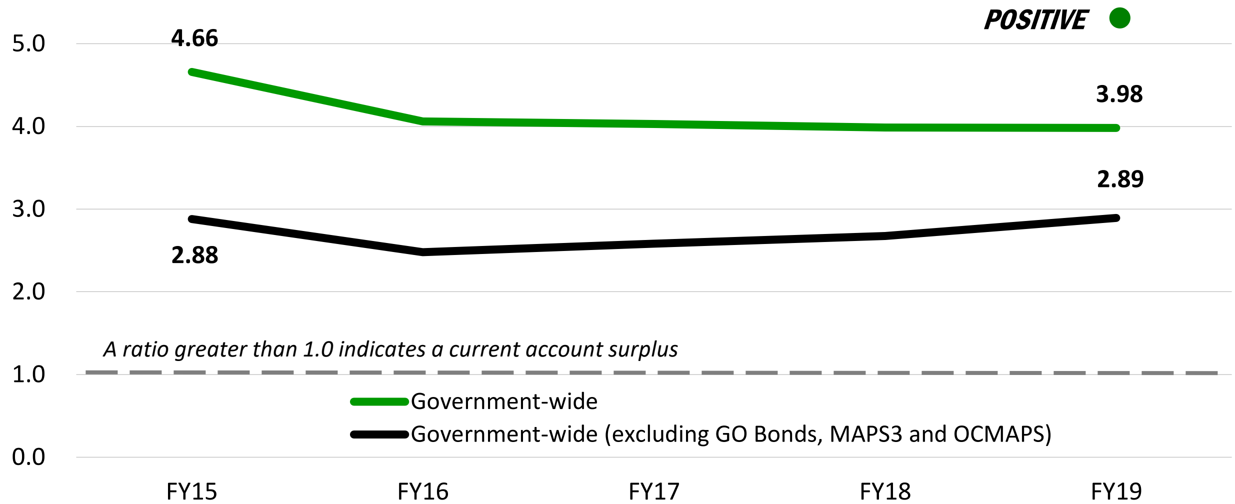
Long term debt for this analysis is the ratio of General Obligation Debt Outstanding as of June 30th to the Net Assessed Valuation. The General Obligation Debt Outstanding as of June 30th is simply the amount of long-term debt for which the government has pledged its full faith and credit divided by the net taxable assessed value of the property in the jurisdiction. An accelerated debt issuance can overburden a municipality; however, the credit rating industry also recognizes that a low debt ratio may not always be a positive factor since it could indicate underinvestment in capital facilities and public infrastructure.[13]

Why is This Important to Oklahoma City?

Oklahoma City's long-term debt ratio has gradually increased from 12.7% to 14.3%. Over the last 10 years, lower interest rates allowed more bonds to be sold, which resulted in more projects completed. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than $110 million for streets. Although debt grew slightly faster than net taxable assessed value over the five-year period the mill levy remained below the informal policy of 16 mills and therefore, the long-term debt ratio of 14.3% in FY19 is viewed as being stable as a percentage of assessed valuation and is rated as neutral.

The second indicator in black is not rated and was added to track the General Obligation Debt as a percentage of the City's Estimated Fair Market Value of taxable property. While similar to Net Bonded Debt, this measure divides General Obligation Bond Principal Outstanding as of June 30 (excluding reserves) by the Estimated Fair Market Value of the City's Taxable Property. Fair Market Value is not capped like Net Taxable Assessed Value so this measure helps track the debt burden set in the City's Debt Policy. It states the City's amount of direct unlimited and limited tax general obligation debt outstanding at any time not exceed 3% of the City's estimated full market value. A debt burden that ranges from 3-4% tends to be viewed as average. If this indicator were evaluated on its own it would be rated positive due to the context of the ratio staying well below the debt policy.

LIQUIDITY



Formula: Cash and Current Investments / Current Liabilities

What is Liquidity?

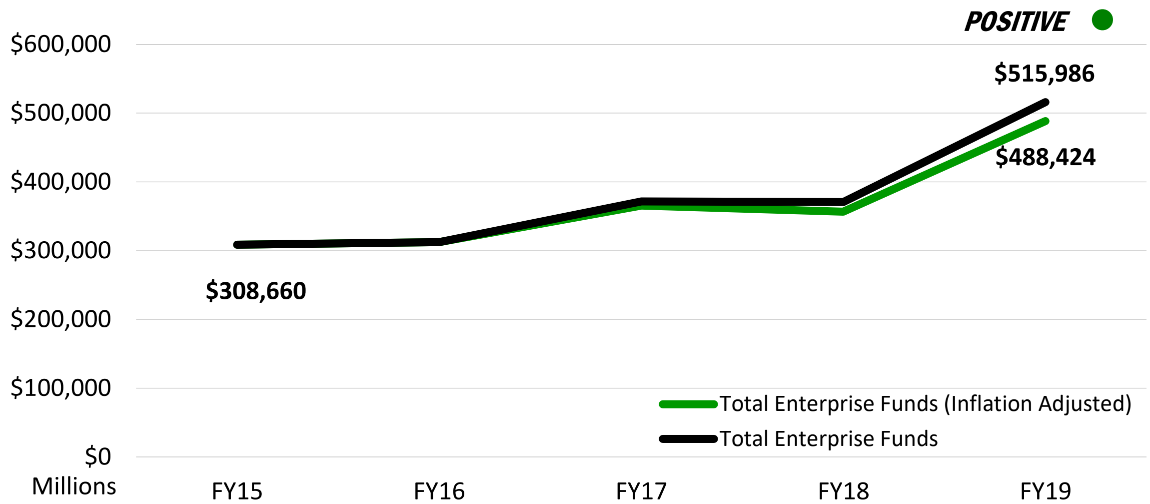
A local government's cash position, or liquidity, determines its ability to pay short-term obligations and serves as a good indicator of short-term financial condition. Liquidity is the ratio of cash, cash equivalents, and current investments to current liabilities. A cash shortage is the first sign of low or declining liquidity, and can lead to insolvency and/or indicate that a government has over-extended itself in the long run and is unable to pay its bills. The current ratio calculated in this indicator compares cash, cash equivalents and current investments to current liabilities for primary government funds and component units. A ratio greater than one is desired and indicates a *"current account surplus."* Conversely, a ratio of less than one indicates insufficient amounts of cash and short-term investments to cover short-term liabilities as they are due.

Why is This Important to Oklahoma City?

During the last five years, the liquidity ratio has remained around 4.0, indicating a current account surplus.[14] In FY15 the ratio began to decline slightly each year due to completion of planned capital projects. The ratio has remained very healthy over the past five years, as such this indicator is rated positive.

A secondary data set provides a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, but instead it excludes four of the largest funds, General Obligation Bonds, MAPS 3, OCMAPS, and Better Streets Safer City which are restricted to the purpose of funding capital projects. This *"practical"* liquidity rate has also trended positive during the five-year period with assets growing faster than liabilities, providing insight into the cash position for operations. The more "practical" liquidity rate was 2.89 in FY19, indicating that operational funding is also very healthy.

ENTERPRISE WORKING CAPITAL



Formula: Enterprise Working Capital = Current Assets – Current Liabilities

What is Working Capital?
Enterprise funds common to local governments include utilities, airports, and parking systems. These funds differentiate themselves from the General Fund in that user fees rather than taxes are their primary means of revenue. Instead of having the ability to raise taxes to increase support for programs, enterprise entities are subjected more to the laws of supply and demand. The revenue excess or shortfall at the end of the accounting period may not fully represent the condition of an enterprise, therefore, this indicator examines changes in working capital – comparable to fund balance in the General Fund – as an additional measure of financial condition. For this analysis only, Commercial Paper is excluded from liabilities since it is anticipated to become long term debt. In all other financial reporting, Commercial Paper is reported as current debt in accordance with GASB protocol. For this measure, Enterprise Funds is defined as the City Enterprise Funds plus the Enterprise Component Unit (Trust).

Why is This Important to Oklahoma City?
Working capital of $488 million, inflation adjusted, and a liquidity ratio of 2.59, suggests that Oklahoma City's enterprises, as a whole, were able to make expenditures for capital outlay and improvements after paying all current liabilities incurred from daily operations. Over the five-year period, Enterprise Funds in inflation adjusted dollars increased 58% and the liquidity ratio remained well above the desired level of one, indicating a positive trend.

1 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, Evaluating Financial Condition: A Handbook for Local Government. Washington DC: ICMA, 2003.1.
2 City of Oklahoma City Planning Department.
3 Nollenberger 120.
4 Price Edwards Oklahoma City Mid-Year 2019 Office Market Summary https://www.priceedwards.com/market-trends/office
4 Nollenberger 16.
5 Baker Hughes Rig Counts. January 2019 http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm
6 Wilmoth, Adam. "Oil industry's significance returns to 1982-levels", The Daily Oklahoman 16 Jan 2014 Print
7 City of Oklahoma City Public Works Department, 2019
8 Nollenberger 16.
9 Nollenberger 41.
10 Nollenberger 32.
11 Nollenberger 51.
12 Nollenberger 23.
13 Nollengerger 79.
14 City of Oklahoma City Comprehensive Annual Financial Report, 2019

FIVE-YEAR FORECAST

FISCAL YEAR 2021 - 2025

SECTION 4

ECONOMIC OUTLOOK

FIVE-YEAR FORECAST

FISCAL YEAR 2021-2025

2020-2021
Oklahoma Economic Outlook

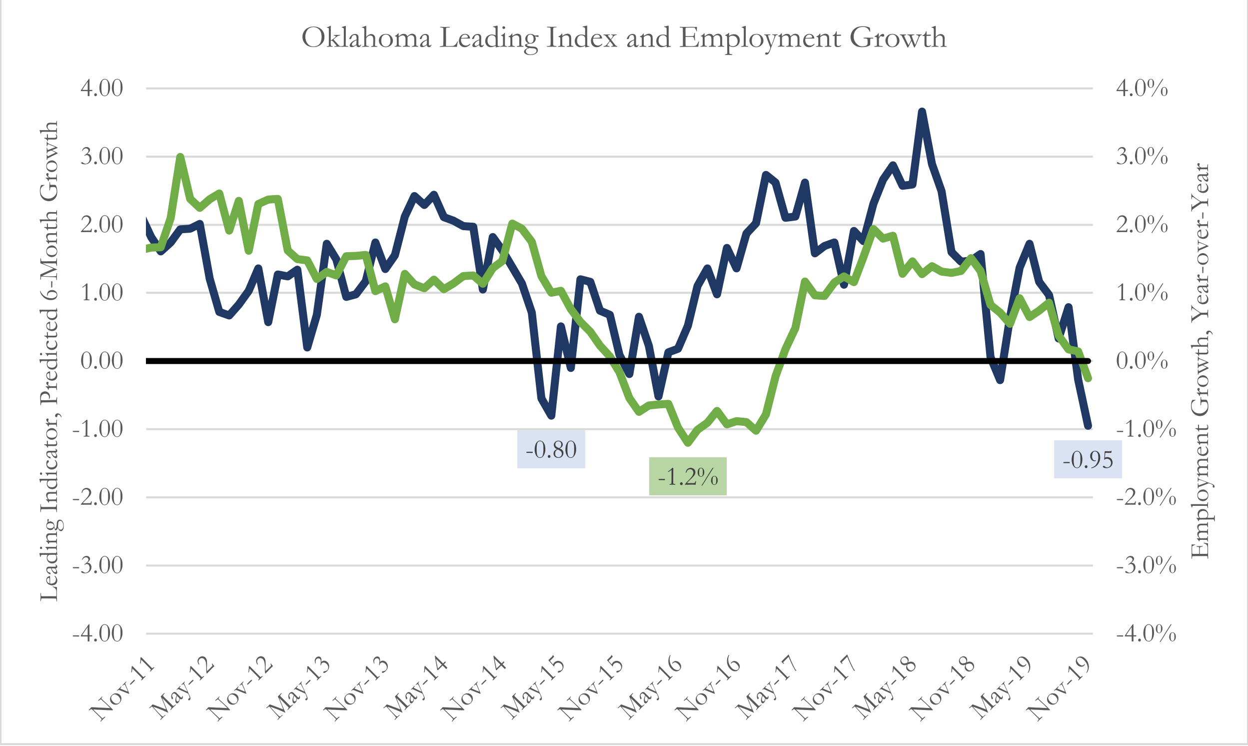
A Review of Economic and Fiscal Conditions in the U.S. and Oklahoma

Russell R. Evans, Ph. D.
Associate Professor of Economics
Executive Director, Steven C. Agee Economics Research and Policy Institute
Meinders School of Business, Oklahoma City University

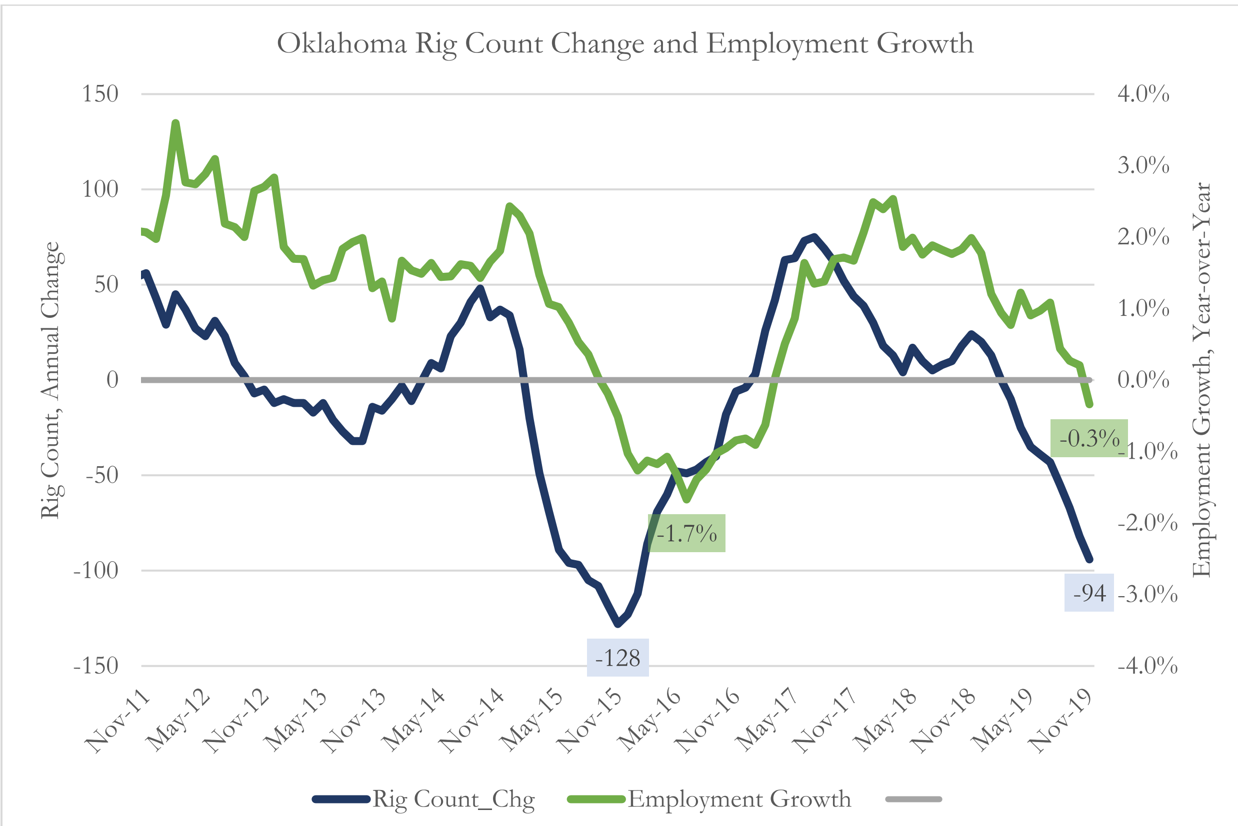
INTRODUCTION

Last year saw a gradual slowdown in the Oklahoma economy. The slowdown was so gradual that many might have missed it! But there is no escaping the reality now. Rig activity in the state is setting record lows with oil prices not expected to see any significant upside until the second half of 2020 at the earliest. The U.S. Energy Information Administration is calling for slow growth in crude oil production in 2020 and 2021 but expects nearly all of that growth to come from the Permian basin in Texas and New Mexico. Oklahoma's STACK and SCOOP geology may not be as promising as once thought at current prices. The cumulative effect is to restrict any hope of a recovery in the state's energy industry to the second half of 2020 and, even then, the recovery is expected to be modest in nature.

The most recent oil and natural gas contraction may offer some insight. Energy prices peaked in the fall of 2014 before falling precipitously and moving the sector from boom to bust. In April 2015 the Philadelphia Federal Reserve index of leading indicators read -0.8 – a prediction that the corresponding coincident index of Oklahoma economic activity would decline by 0.8% over the next six months. By November 2015, statewide employment was down -1.2% from a year ago and Oklahoma moved into recession. In November 2019 the leading indicator index read -0.95 with employment growth just moving into negative territory.



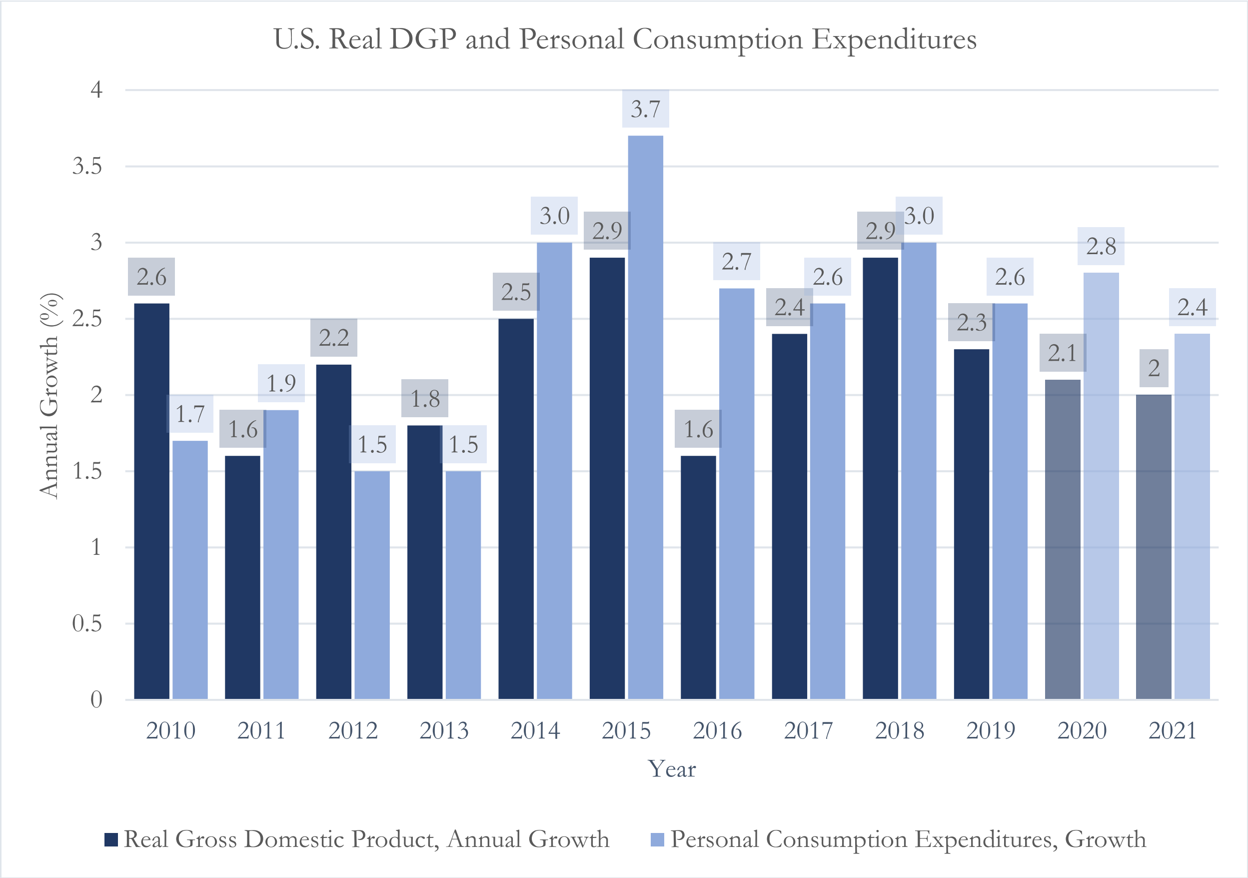
Not surprisingly, the pattern observed in the leading indicators index and its relationship with statewide employment follows closely the patterns in the state's oil and natural gas industry. Changes in rig activity often lead economic cycles in the state. In February 2015, statewide rig counts fell below their year-ago levels, reaching a net change of -128 by November. Statewide employment moved below year-ago levels in the fall of 2015, reaching a low of -1.7% below year-ago levels in June 2016. Oklahomans will remember well this period of statewide recession and budget shortfalls.



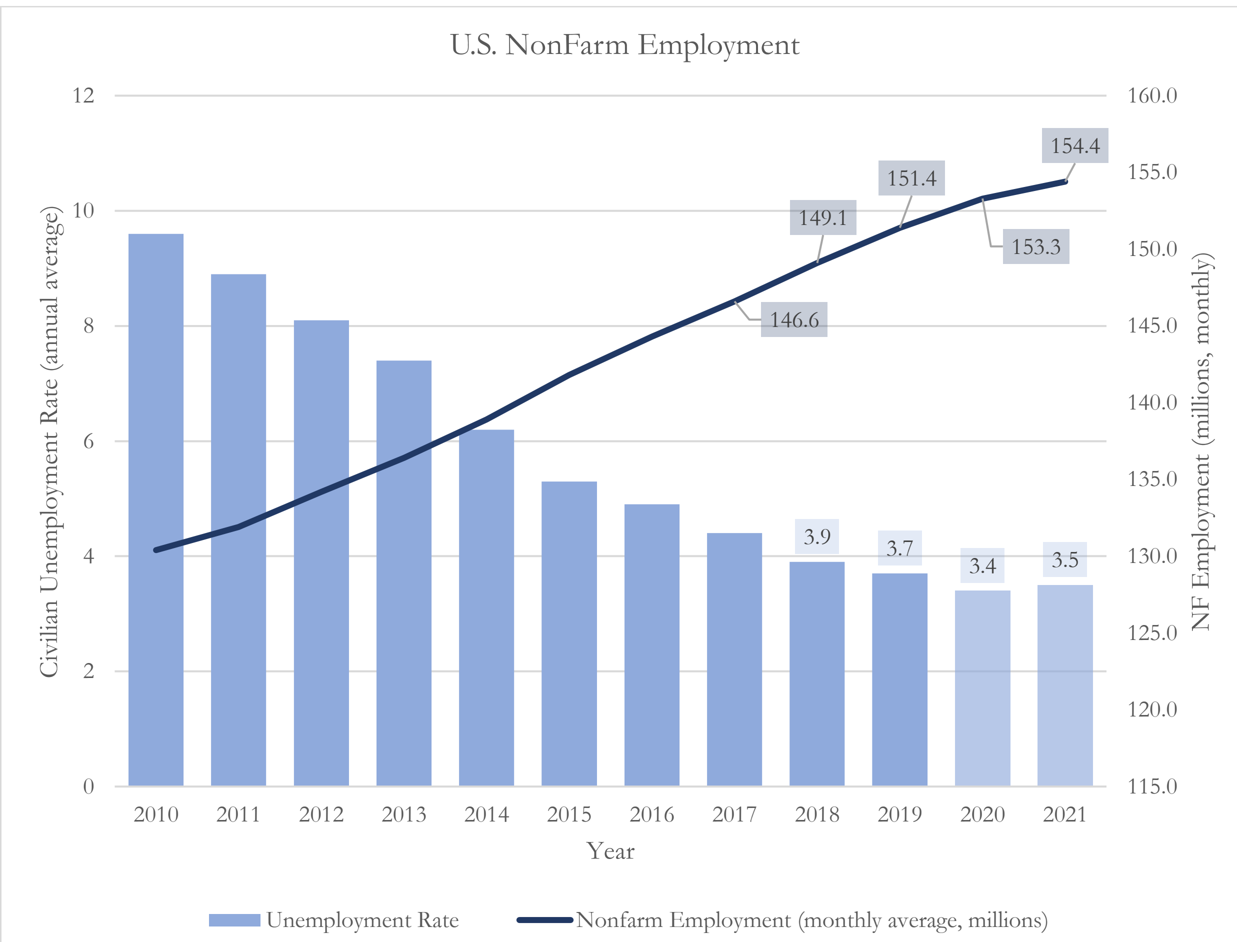
It remains to be seen the extent to which 2016 is a predictor for 2020. To argue that Oklahoma can reject the prediction of the leading indicators index and brush off a severe contraction in the energy industry is to argue that this time is different. It is difficult to accept this argument. However, what is different is the relative strength of the U.S. economy. In 2016, the U.S. economy grew well below trend at just 1.6%. The ability of the Oklahoma economy to withstand 2020 may well depend on the ability of the U.S. economy to extend its record-breaking expansion one more year.

THE U.S. ECONOMIC OUTLOOK

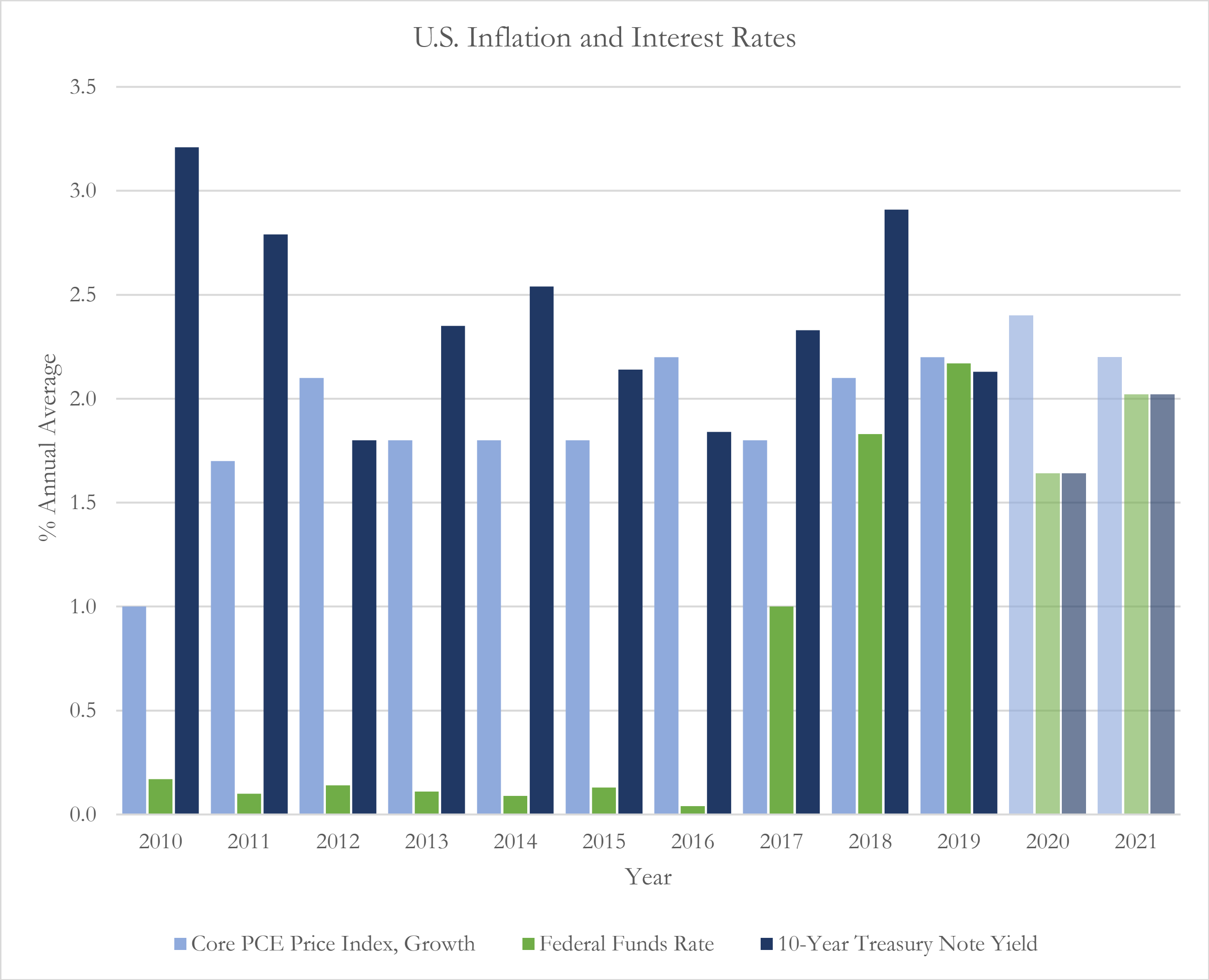
The current U.S. economic expansion is now the longest on record exceeding the 120-month record previously set from 1991 to 2001. Though record-breaking in length, the expansion has been consistently modest with annual growth never topping 3% and only exceeding a 2.5% growth rate in 2010, 2015, and 2018. Most professional macroeconomic forecasters predict that recession fears are adequately contained and the U.S. economy likely to experience trend growth near 2% in 2020. The forecast presented below represents the baseline expectation of Macroadvisers by IHS Markit that the U.S. economy will expand by 2.1% in 2020 led by a 2.8% expansion in personal consumption expenditures. This view is in contrast to multiple surveys of CFOs who expect a slowdown in 2020. While outright recession fears may indeed be contained, downside risks still outnumber upside risks leaving Oklahoma to hope for a best U.S. case to materialize and provide external strength against our internal weakness.



The baseline expectation for the U.S. labor market is a modest expansion in nonfarm employment to accompany modest economic growth. The labor market is expected to add an average of 158,000 new jobs per month, or just enough growth to support new labor market entrants. Headline unemployment rates are expected to stay historically low, averaging close to 3.5% for the year. The absence of significant upward pressure on wages in spite of a very low unemployment rate suggests that this headline number may be overstating the degree to tightness in the market. To date, the expansion has struggled not only to support a labor market tight enough to put significant upward pressure on wages but also to support a labor market that brings a significant share of the working-age population back to the labor force. The implication of a labor market that may have more slack than the headline unemployment rate would suggest a longer path for monetary policy to be relatively accommodating.

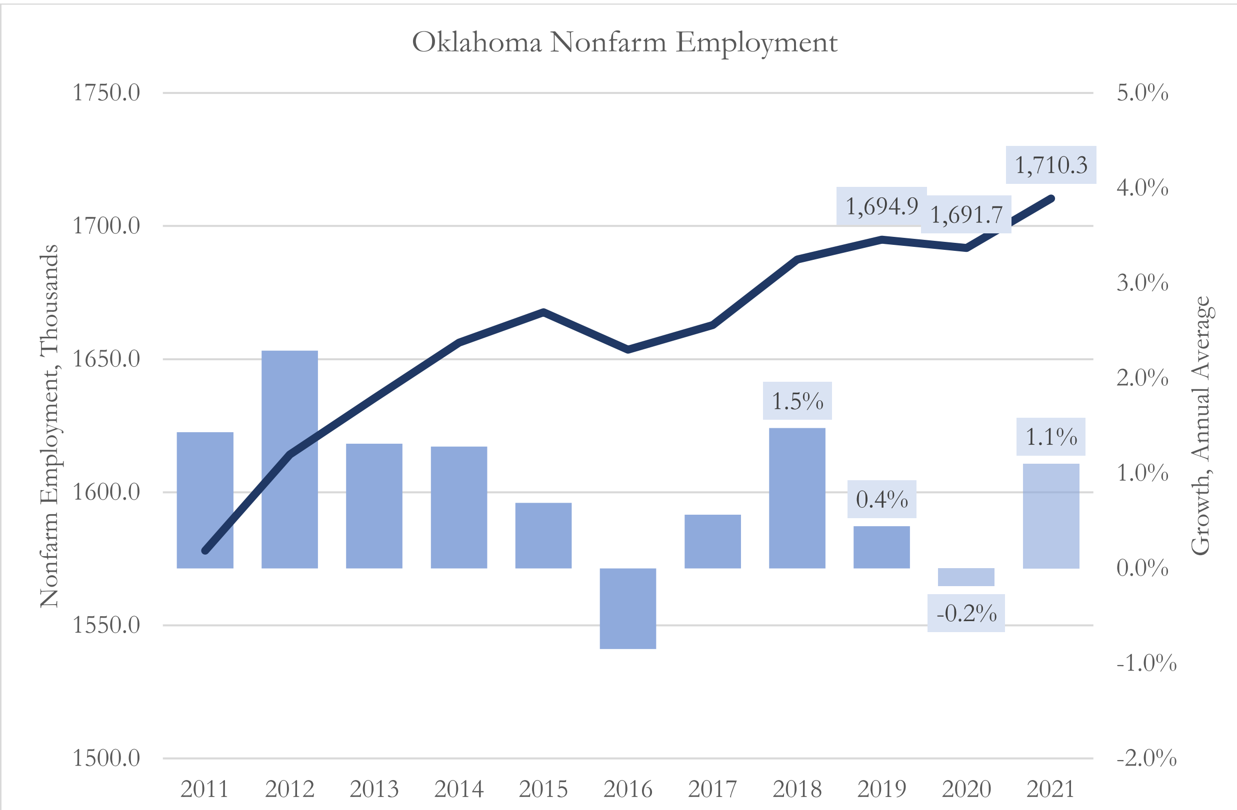


The lack of upward pressure on wages not only indicates some hidden slack in labor markets but also the likely absence of significant inflationary pressure generally. This expectation is reflected in the forecasted growth of the core PCE price index just above the Federal Reserve target of 2%. With inflationary pressures contained and downside risks to economic growth lingering, the baseline expectation is that the Federal Reserve will hold policy near current levels through 2020. The baseline forecast is for the federal funds rate to average 1.64 in 2020 consistent with the current range of 1.5 to 1.75 targeted by policymakers. Recent research published by former Federal Reserve chair Ben Bernanke suggests that except in the most severe alternative scenarios, the Fed's current toolbox of interest rate cuts, quantitative easing, and forward guidance should provide sufficient response. The hope, of course, is not that he's right but that we never have to find out if he's wrong.

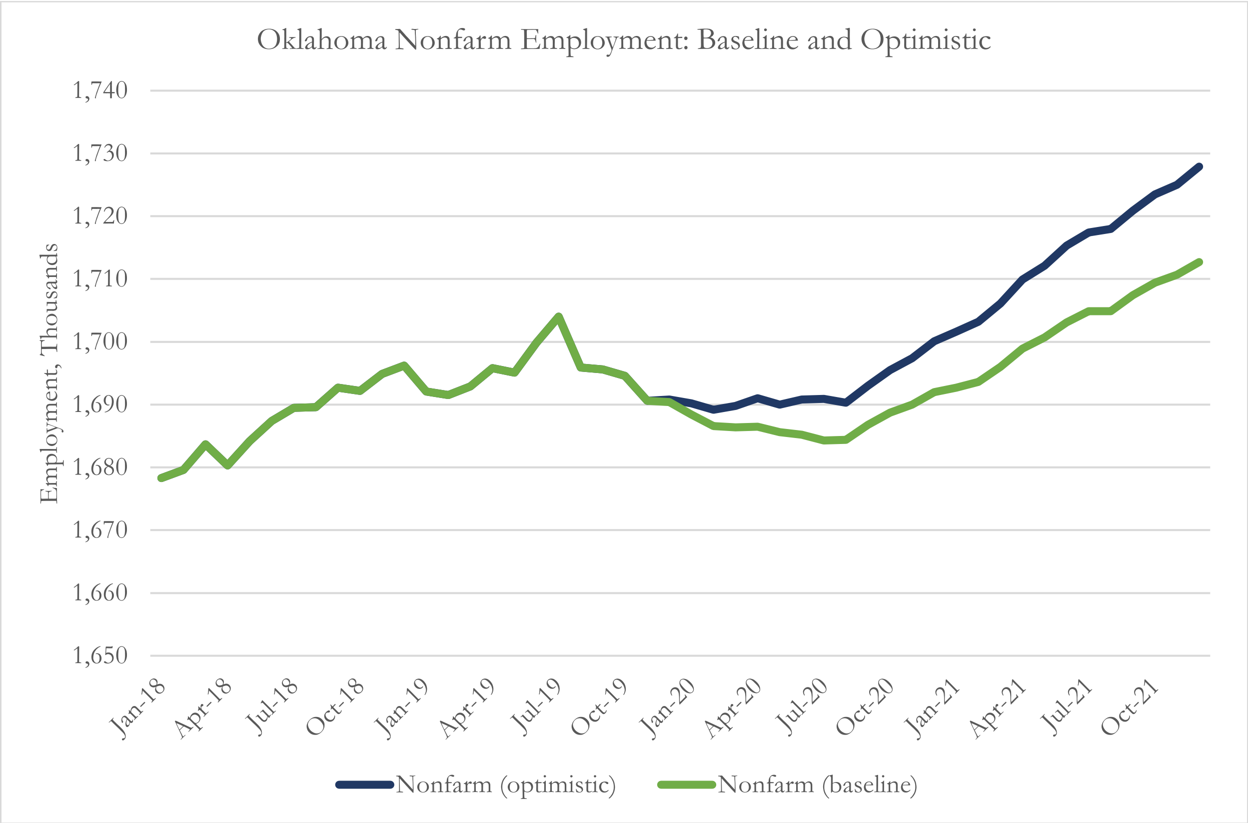


THE OKLAHOMA ECONOMIC OUTLOOK

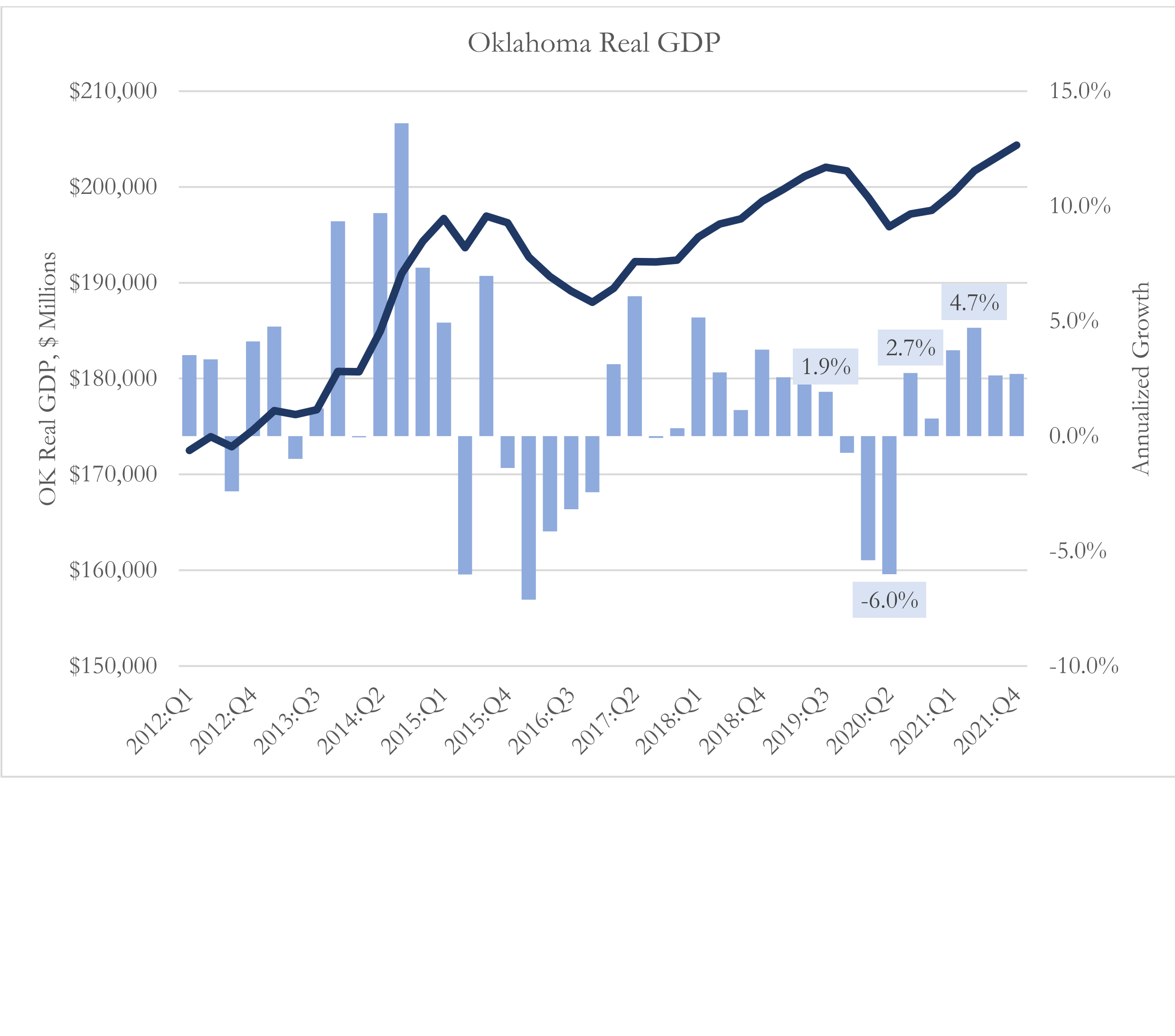
The introduction to the outlook set the theme for the 2020 outlook – a year on the brink of recession. The baseline forecast anticipates challenging conditions in the state with a basket of indicators oscillating between no growth and mild contraction. Conditions are likely to be the most stressed in the middle of the year with some improvement materializing in the second half. Average monthly nonfarm payrolls are projected to be down -0.2% in 2020 be rebounding to 1.1% growth in 2021. It is worth emphasizing again that, in some ways, the baseline expectation is a best-case scenario as it assumes enough strength in the national economy to counter some of the specific weaknesses present in the Oklahoma economy.



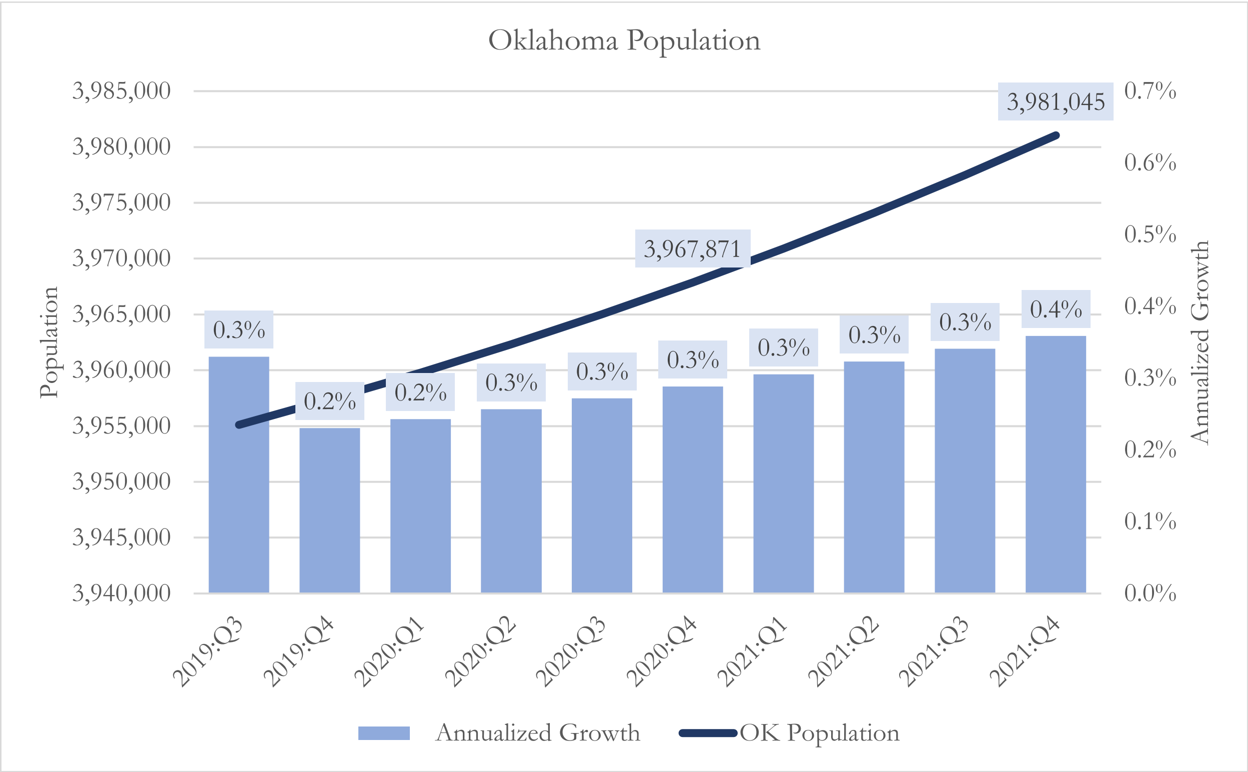
In some ways, the baseline case (average monthly nonfarm payrolls down -0.2% in 2020) seems unrealistically optimistic given the facts presented in the introduction. Indeed, forecasting a turn in economic activity is a challenge because even though the data identify a turn ahead, the available information often understates the magnitude of that turn. An alternative approach to forecasting the nonfarm data series would be to forecast the major sectoral components of the series, then sum the forecasts to create a new forecast of nonfarm employment. Using this approach, the forecast would predict nonfarm average monthly payrolls to contract by 0.5%. The graphic below compares the alternative trajectories.



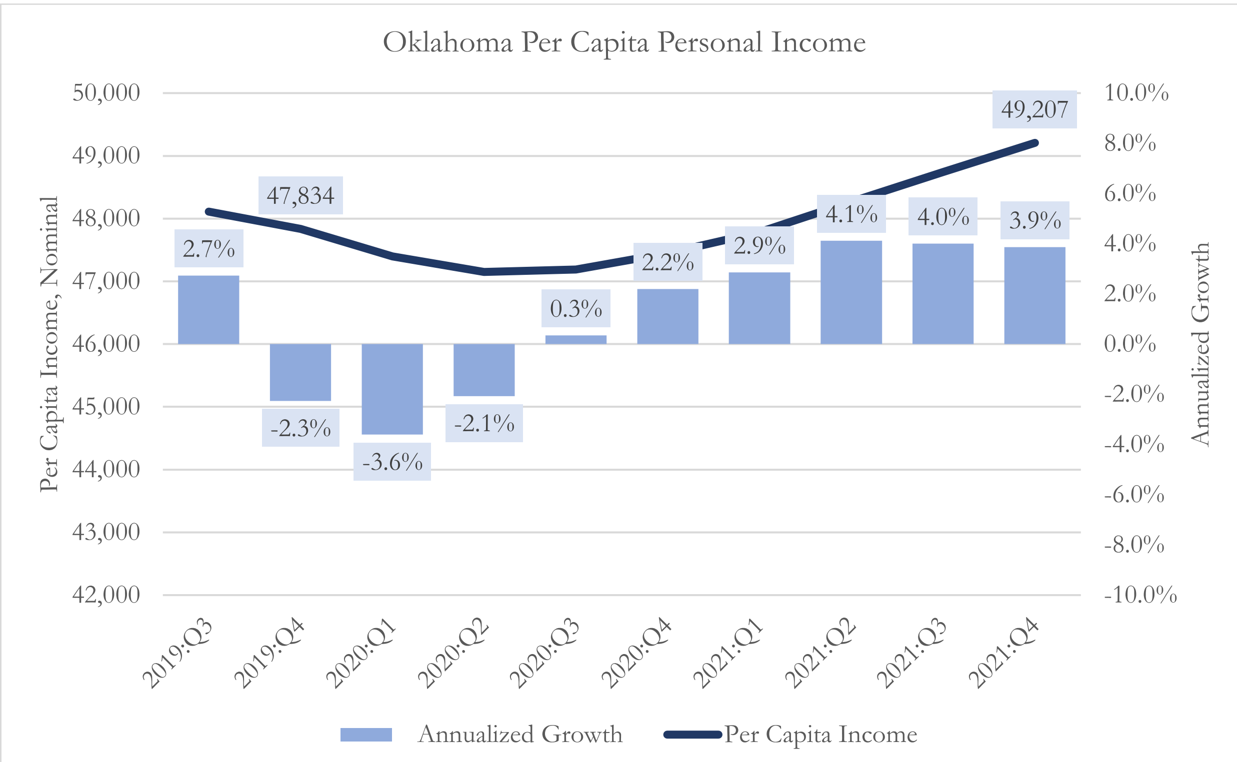
Real gross state product in Oklahoma follows close changes in oil prices and the value of production in Oklahoma's energy industry. Beyond shifts in the energy industry, real gross state production fluctuates with statewide employment. Oklahoma's economy grew at 1.9% in the third quarter of 2019 but likely fell flat in the fourth quarter. Real GDP is expected to contract in the first half of 2020 before recovering into year-end before returning to modest growth (3.5%) in 2021. The pattern predicted for state GDP meets the technical definition of a recession, but GDP alone is an inadequate measure of state economic health. As 2020 progresses, the expectation is that the state's economy will feel somewhere between stagnant and mild contraction. But this reality places the state in a precarious situation with any additional economic adversity potentially sending the state into an outright recession.



Oklahoma population growth has been flat for years, belying the reality that much of the rural areas of the state are losing population to the metro areas. Recent data suggest that even metro area population may be slowing. It remains to be seen whether the slowdown is transitory or related to long-term fundamentals. Regardless, the developing economic weakness that is expected to carry much of 2020 will further limit the potential for population gains. Statewide population is expected to grow at annualized rates of less than 0.5% through the forecast horizon, approaching the 4 million population threshold by late 2021.

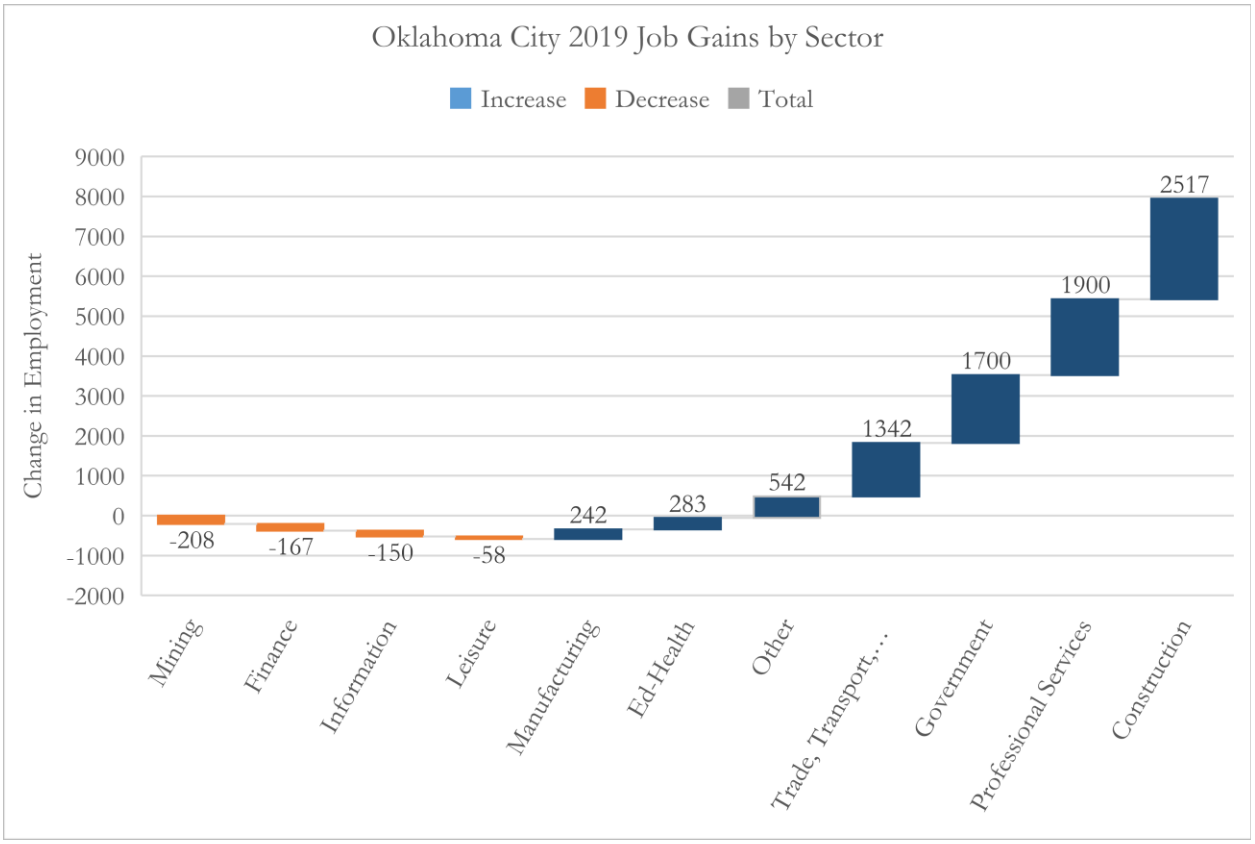


Oklahoma personal income growth is expected to suffer under the weight of the current energy industry contraction. Declining personal income combined with slowly growing statewide population will combine to put downward pressure on per capita personal income through the first half of 2020. Consistent with the expectation of a mild recovery developing in the second half of the year, per capita income returns to growth heading into 2021. By the end of 2021, Oklahoma per capita personal income is expected to exceed $49,000.

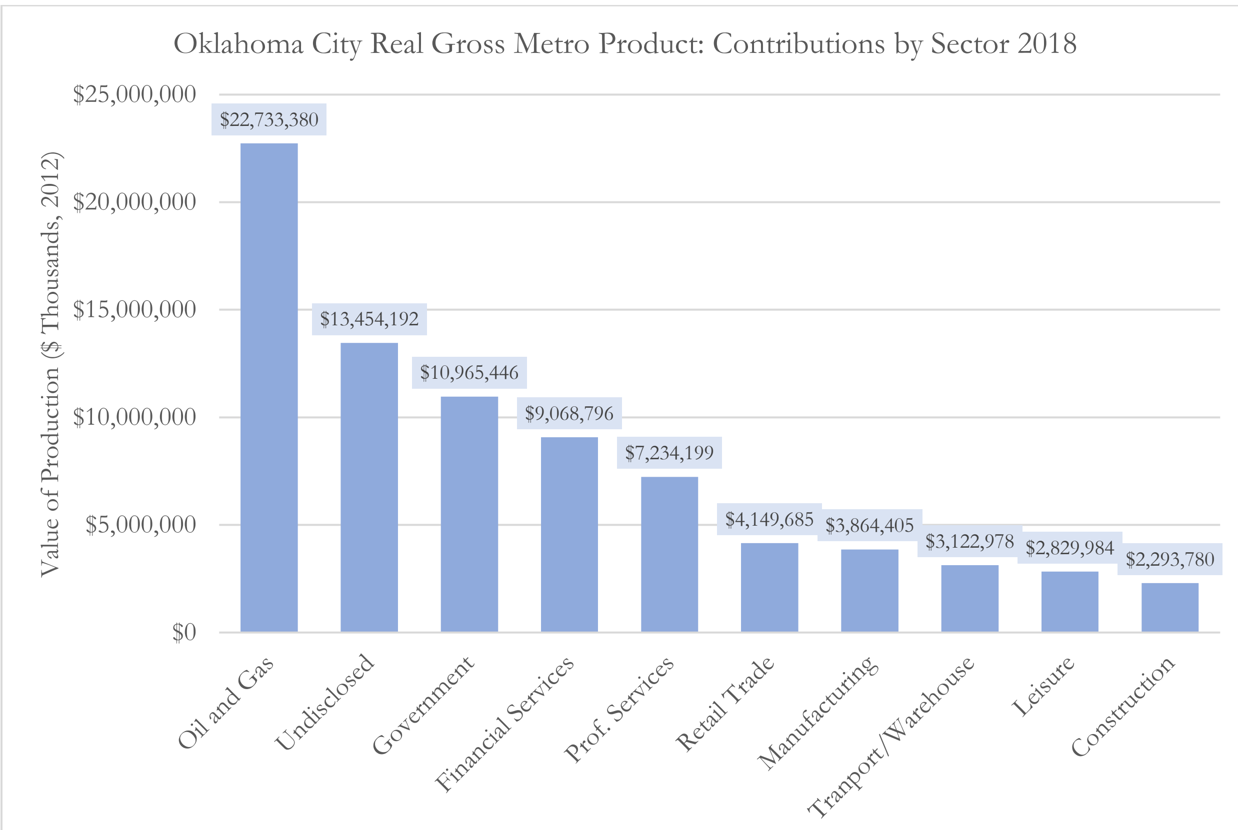


THE OKLAHOMA CITY ECONOMIC OUTLOOK

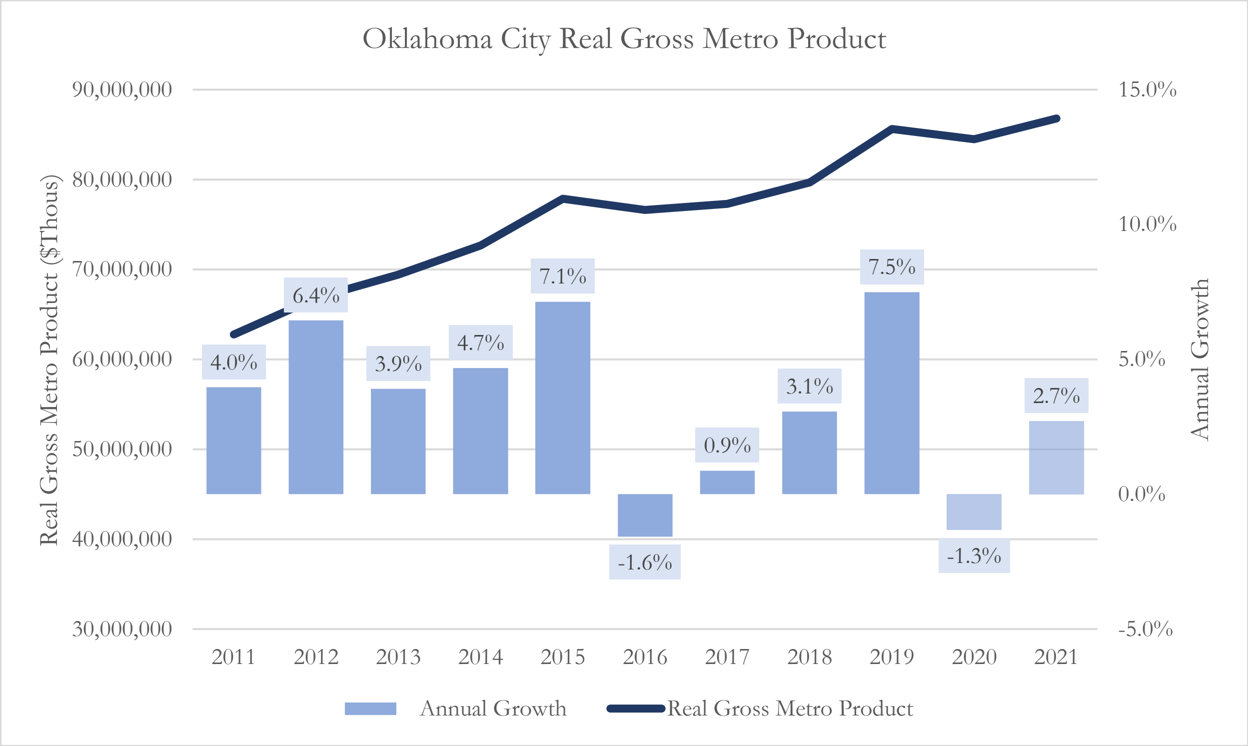
Average monthly nonfarm payrolls increased by 1.2% or an additional 7,900 jobs. Modest job losses in mining, finance, information, and leisure were offset by gains in other industries. The most significant gains occurred in trade, government, professional services, and construction. Employment gains in the trade sector are not a reflection of increased retail trade employment as that industry continues to trend towards a smaller physical presence. Instead, the trade job gains are concentrated in the transportation, warehousing, and utilities industry. In the professional services sector, job gains were concentrated in the scientific and technical services industry with employment in the subsector of management and administrative services mostly flat.



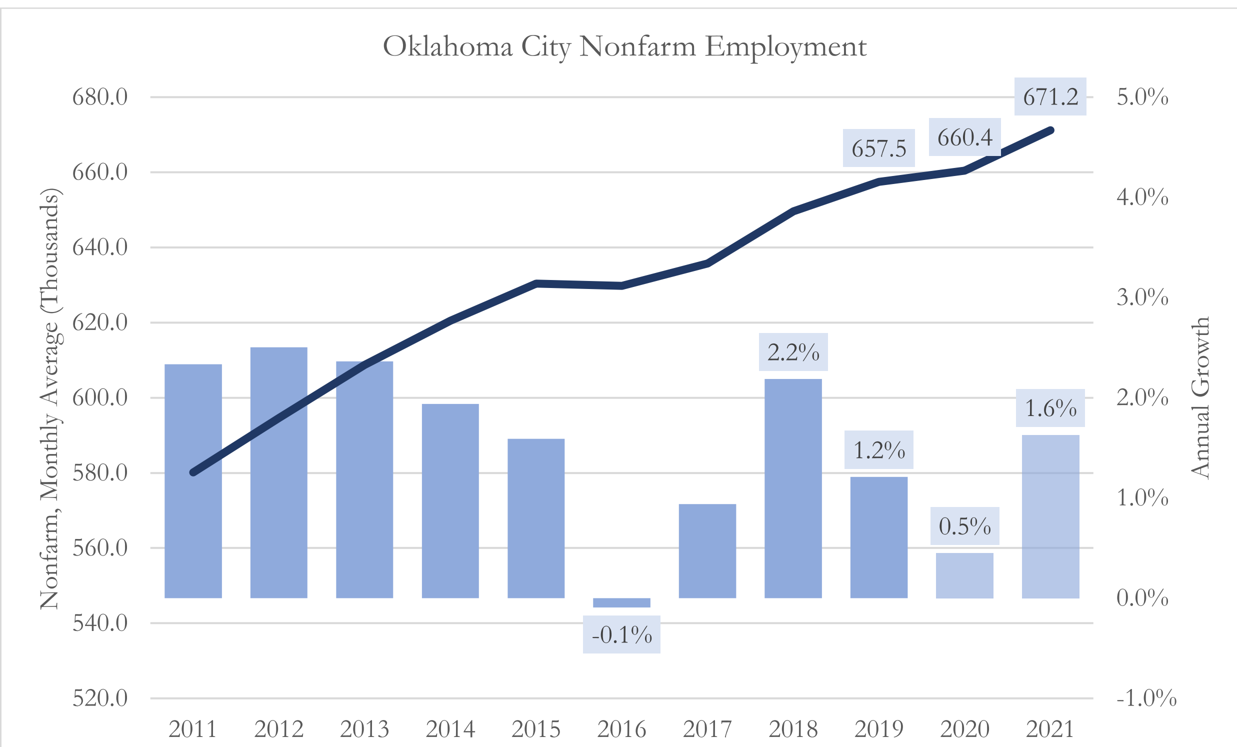
Gross metro product is a measure of the value of production within an economy. Industries with a very high value of production per worker can exert a large influence over measures of gross metro product even if the industry accounts for a relatively small share of local employment. In contrast, industries with a lower value of production per worker may have a large influence on employment metrics but relatively little influence on metro product. In Oklahoma City, the industries with the greatest influence over measures of production are the oil and gas industry and the public sector. In contrast, large employment sectors like retail trade and leisure services exert a much smaller influence on production. For context, the graph below gives each industry's contribution to Oklahoma City's $80 billion economy in 2018.



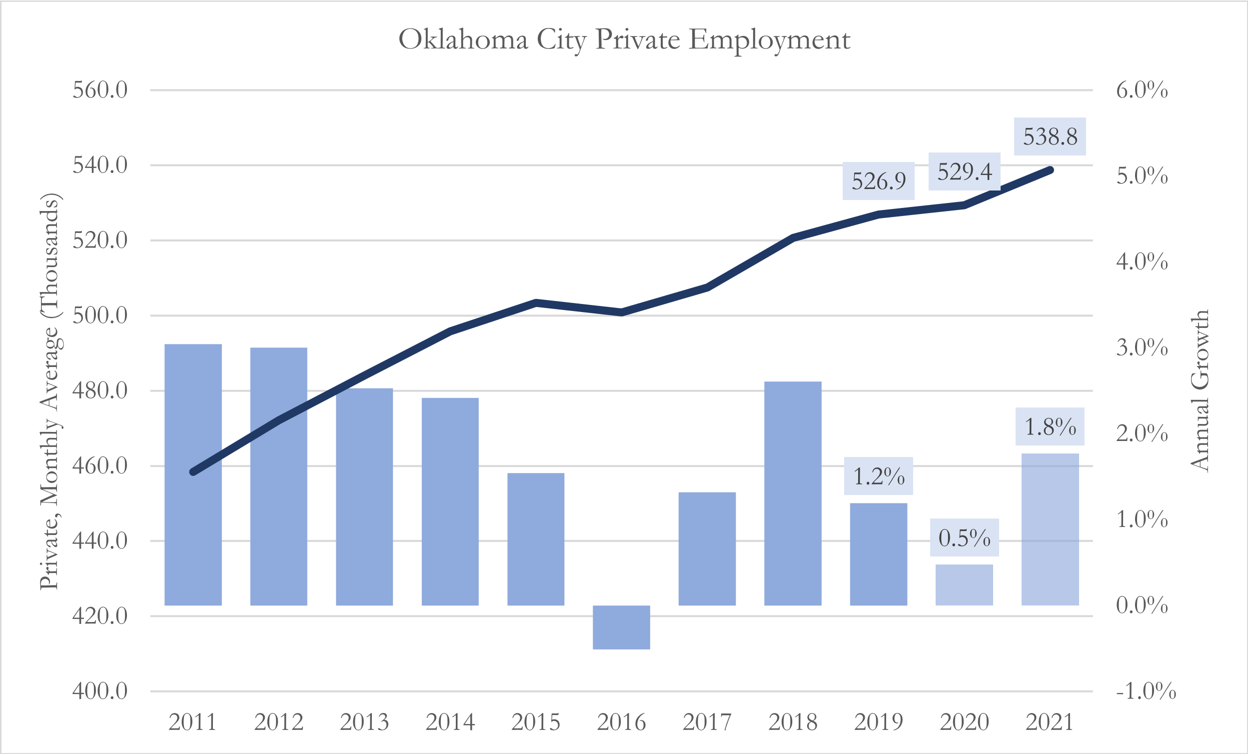
It's not clear that GDP is the critically meaningful measure of economic health that headline news often suggests. GDP is a measure of production rather than welfare and given recent developments in the economy some argue the correlation between growing GDP and improving social welfare is failing. At the local level, measures of GDP are best viewed as one metric in a basket of metrics describing regional economic health. Given the weight ascribed to the oil and gas industry in Oklahoma City's GDP (or gross metro product), it is difficult to imagine the current contraction in the energy industry not being reflected in local measures of production. Indeed, the forecast anticipates a dip in Oklahoma City gross metro product in 2020 (down 1.3%) before rebounding in 2021 (up 2.7%). The pattern speaks to the theme of the forecast – a year on the brink of recession. It is also consistent with the current expectation that the contraction of 2020 will be similar to, albeit slightly milder than, the contraction of 2016.



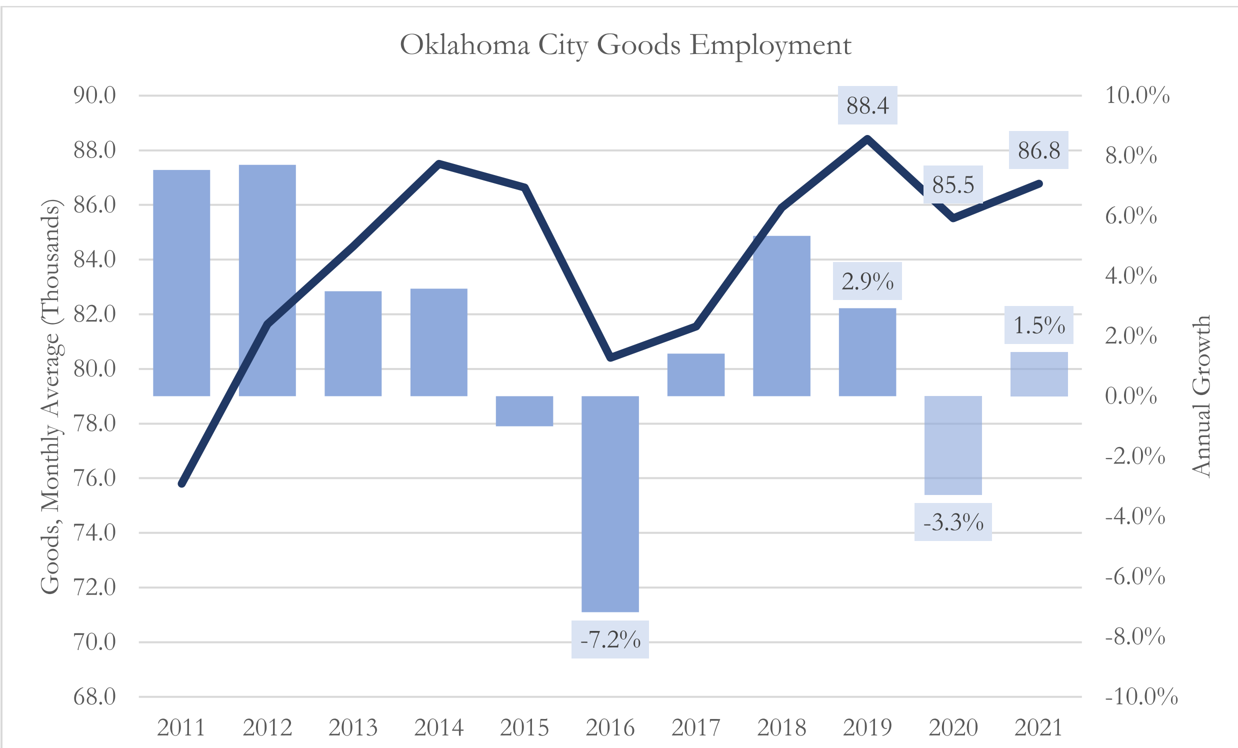
The Oklahoma City economy is less dependent on the national economy than Tulsa and less dependent on the energy industry than the rest of the state (when it comes to employment). But it is not wholly immune to the influence of either. What economic strength is found in 2020 will be found in Oklahoma City and, to a lesser degree, in Tulsa (if the U.S. economy cooperates). Average monthly nonfarm payrolls are expected to grow from 657,500 in 2019 to 660,400 in 2020 representing an annual growth of 0.5%. Payroll gains pick up in 2021 with an anticipated growth of 1.6%. Viewed from a different perspective, the forecast anticipates nonfarm employment to add 6,100 jobs between December 2019 and 2020 before adding 11,600 by December 2021. As with the forecast of statewide employment, the pessimistic scenario (growth of 0.2% instead of 0.5% in 2020) may need to be adopted as the new baseline should the data released through the spring indicate greater economic headwinds. Note again the comparison to 2016 and the previous discussion on employment versus production reliance in the economy. Currently, we expect a significant slowdown in employment growth in 2020, yet growth may remain positive. In contrast, over 2016 average monthly nonfarm payroll employment was down 0.1%.



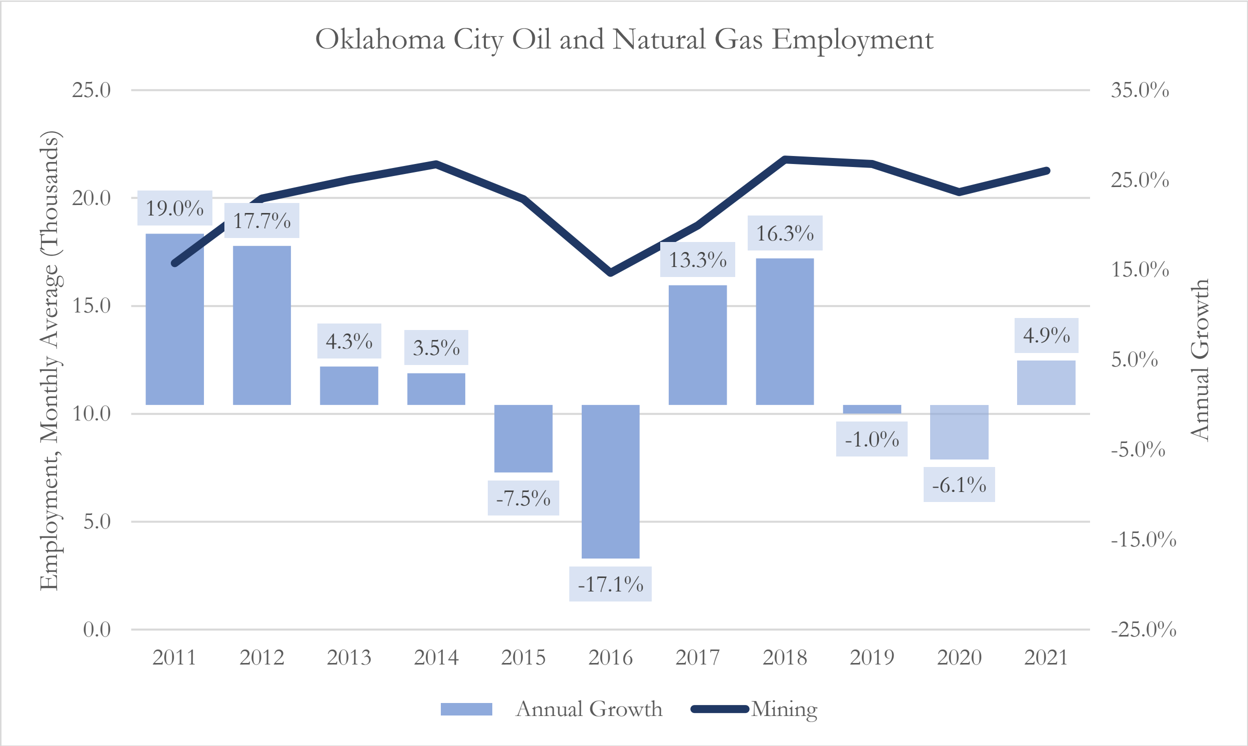
Average monthly private-sector payrolls in Oklahoma City will mirror the gains in nonfarm employment. Private sector employment is projected to grow from 526,900 in 2019 to 529,400 in 2020 representing growth of 0.5%. Labor market strength returns in the second half of the year and leading into 2021 with an annual growth of 1.8%. Viewed from a different perspective, the forecast anticipates private employment to add 5,000 jobs between December 2019 and 2020 before adding 10,200 by December 2021.



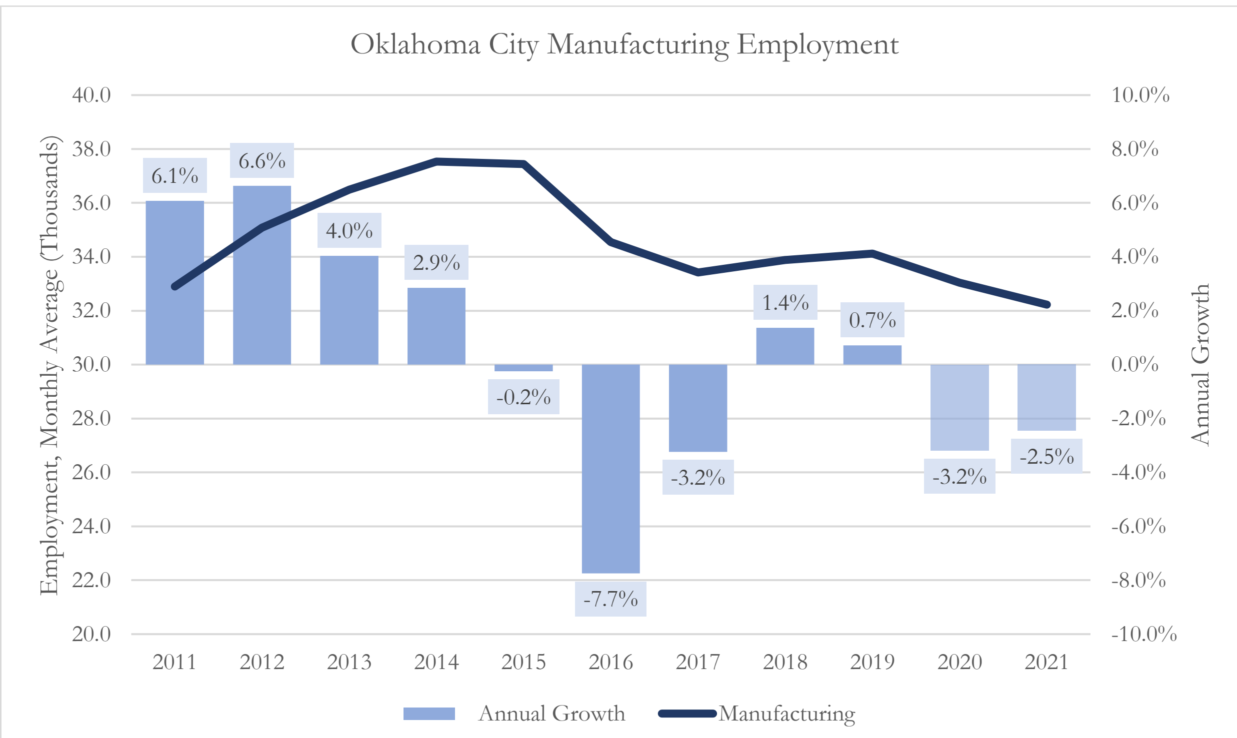
The employment gains in 2019 were not distributed evenly across sectors with job losses in financial services, oil and gas, and leisure services offset by gains in trade, professional services, and construction. Sector performance will be uneven again in 2020 with employment weakness most pronounced in the goods-producing sectors of mining, construction, and manufacturing. Goods employment represents only 12.2% of Oklahoma City nonfarm employment but is much more cyclical than services employment. Employment in goods-producing sectors is expected to contract by -3.3% in 2020 led by job losses in the oil and gas industry. By contrast, goods-producing sectors fell by -7.2% in the 2016 contraction.



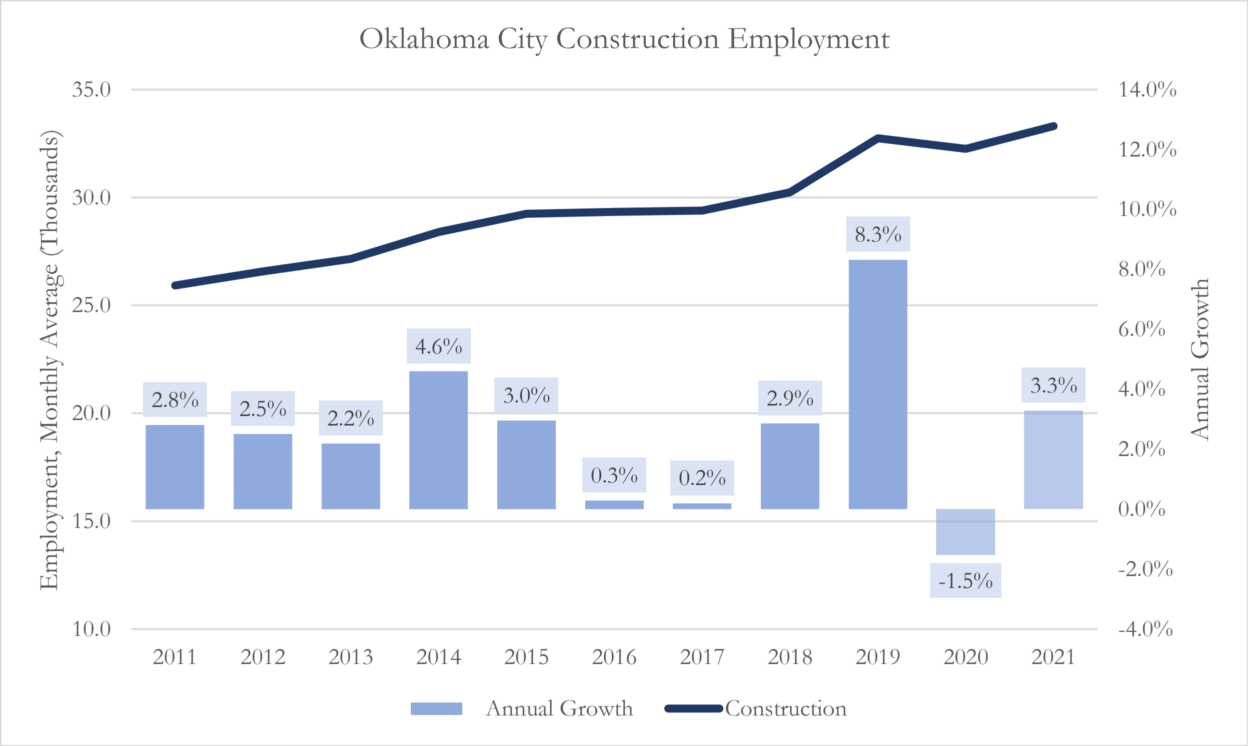
Employment is expected to be down across the board in the goods-producing sectors of mining, manufacturing, and construction in 2020. The industries are somewhat related with a fair amount of manufacturing and construction activity occurring in and around oilfield operations. Additionally, general economic weakness will pull and the performance of these sectors. The most significant drag (in percentage terms) will be in the oil and gas sector with employment expected to contract by 6.1% in 2020. The pace of job losses in the industry was slow enough in 2019 to (mostly) fly under the radar. In total, average monthly payroll employment in the industry was down 1.0% in 2019. We expect the pace of job losses to pick up in 2020 before adding back only a portion of the jobs lost in 2021. While our baseline models (predicated on previous experiences and current data) suggest some recovery by the end of 2020 and into 2021, other signs point to a longer malaise.



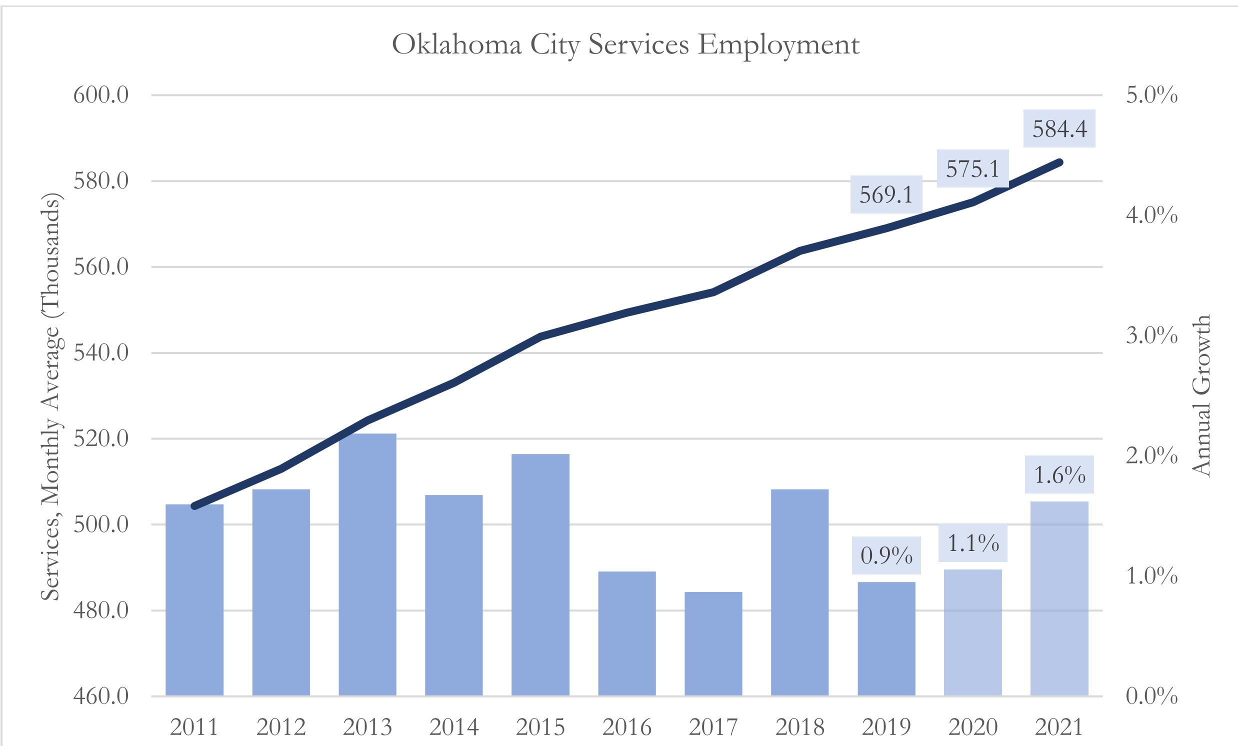
Manufacturing employment held us remarkably well in 2019 given the developing headwinds. In total, average monthly payroll employment in the sector was up 0.7%. We expect the weakness in the global manufacturing sector to combine with the collapse in oil and gas drilling activity to conspire against any such growth in 2020. Instead, expectations call for a 2020-2021 experience not unlike the previous energy contraction and nascent recovery of 2016-2017. Note again, however, the current expectations that this period of weakness will be somewhat milder than the previous. Models currently predict average monthly manufacturing employment to fall by 3.2% in 2020 and 2.5% in 2021. There is some hope, however, that activity could find its footing in 2021 and significantly outperform this forecast, especially if manufacturing in and for the aerospace industry can pick up some of the slack created in the oil and gas industry.



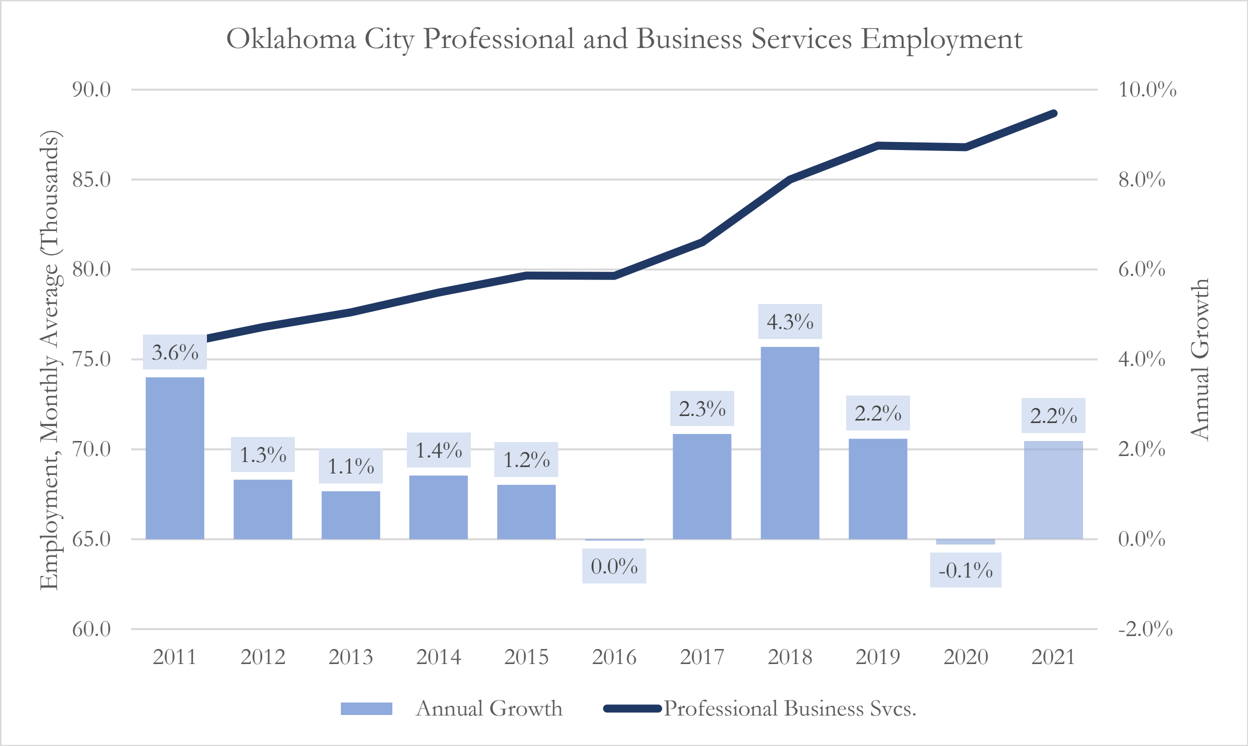
Construction employment was among the standout sectors in 2019 with large public sector investments (MAPS 3 and Better Streets, Safer Cities initiatives) combining with strong residential housing activity to support average monthly payroll employment growth of 8.3%. We expect strength in the industry to ebb in 2020 and contract from current highs by 1.5%. The ebb is partly a reflection of general economic weakness and partly a response to the energy industry contraction. In contrast to previous data series, construction employment is expected to fare worse in 2020 than in 2016. Some of this can be explained by the expectation of a mild correction from current employment levels but some of this pessimism could be simply unfounded. Construction activity is definitely slowing somewhat as we head into 2020, but inertia in the system from projects already permitted and started may carry strength into 2020. Regardless, we expect that in the absence of a national recession developing growth will return to the sector in 2021.



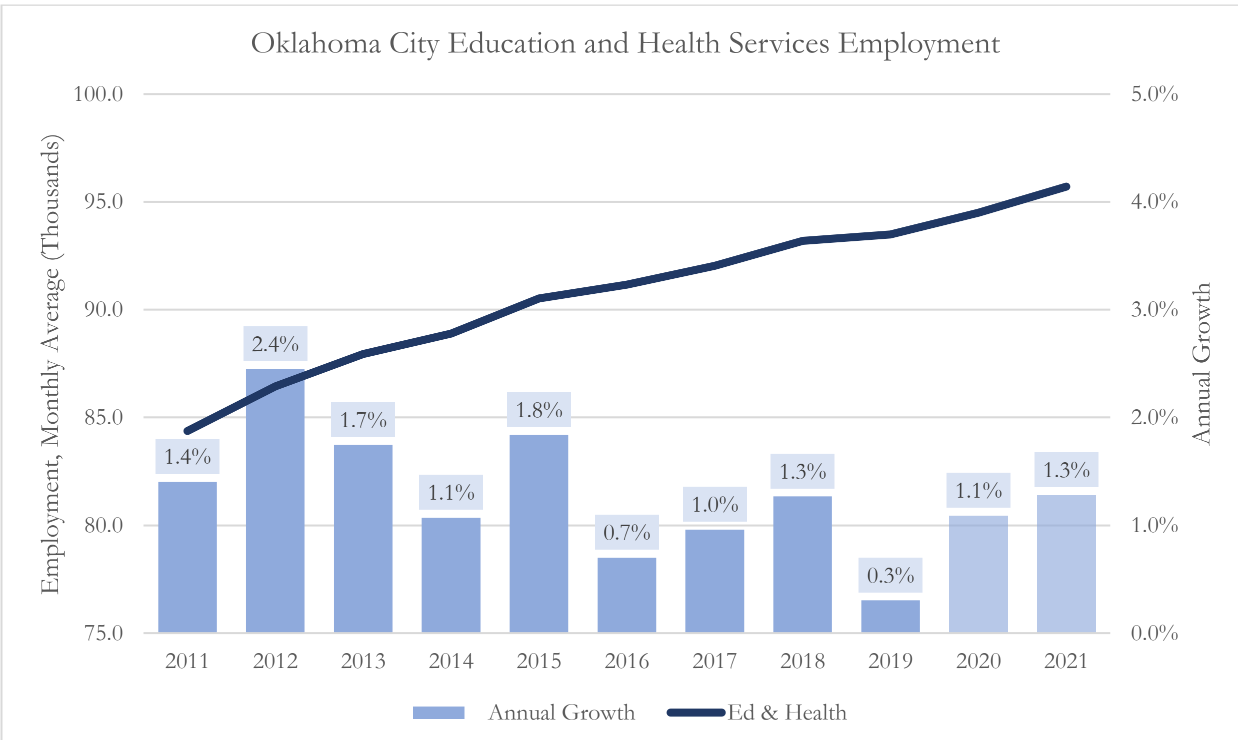
Services employment represents 87.8% of nonfarm employment in Oklahoma City led by employment in trade, leisure, and professional business services. Slow growth in education/health services and leisure services are expected to reverse in 2020 as the services sector carries employment growth in 2020. Average monthly employment in the services sector is expected to grow by 1.1% in 2020 from a monthly average of 569,100 to 575,100. Strength is expected to hold generally into 2021 with an annual growth of 1.6%. The ability of the Oklahoma City forecast of positive employment growth through 2020 will depend on the ability of the services sector to make up for weakness in the goods-producing sector. The full forecast table is available in Appendix B, but likely sectoral candidates to supply this growth include the scientific and technical services sector, the health services sector, and the transportation and warehousing sector.



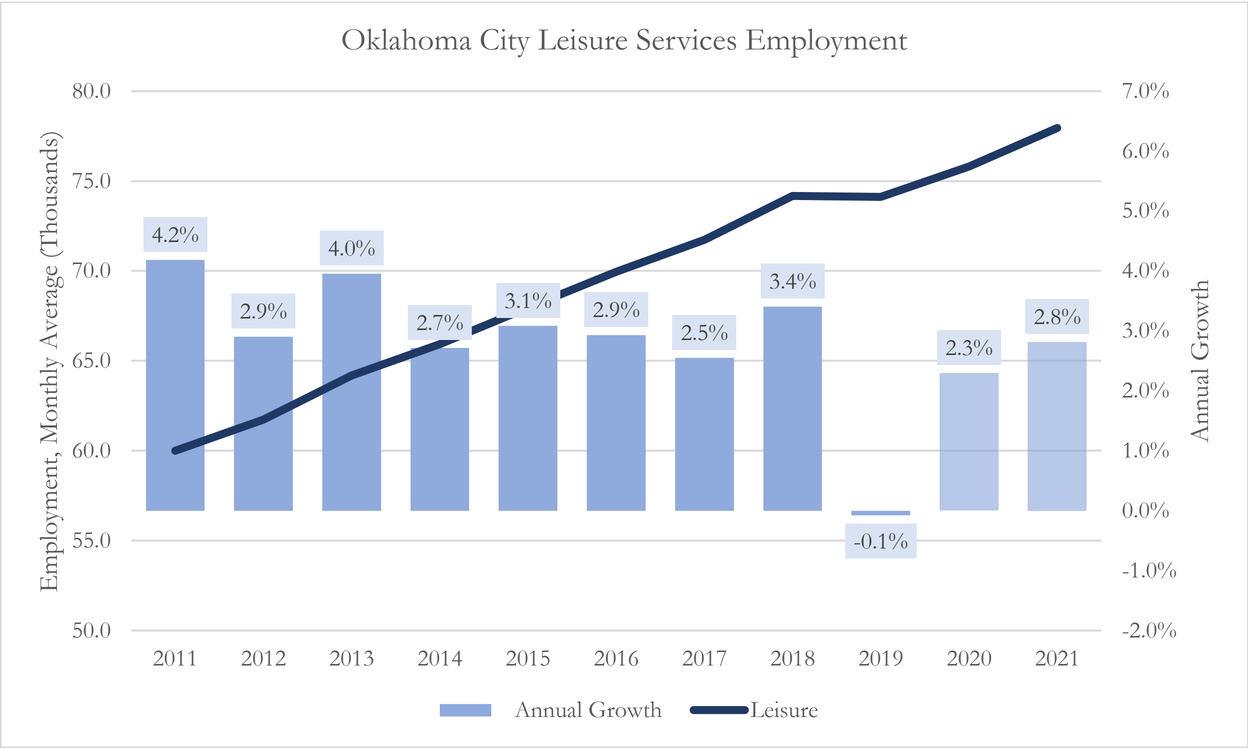
Within the services sector, at least two industries merit consideration. The first is professional and business services. This sector has three principal components: management (employment at headquarters and management consulting), scientific and technical (engineering, architectural, etc.) and administrative (waste management, temporary employment services, etc.). The largest of the three is administrative, followed by scientific/technical and then management. Total employment in the industry is expected to be down a fraction (0.1%) in 2020 and comparable to the experience of 2016. However, all of the contraction is expected to come from the administrative and support services sector. Both the management and scientific/technical sectors are expected to grow in 2020. Of particular importance is the growth in scientific and technical services employment as this creates a labor pool in the Oklahoma City economy that can support further development in STEM-related fields.



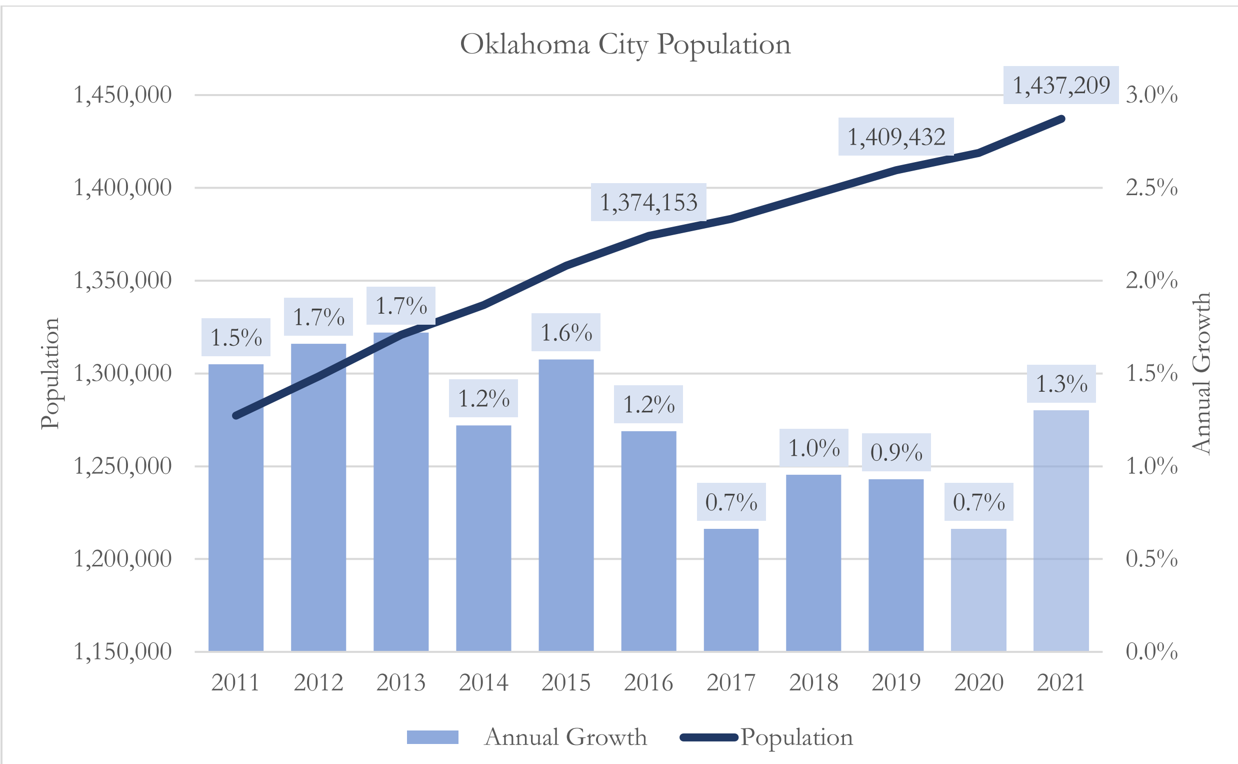
Also worth mentioning is the expected growth in the health services sector. Growth in health care employment is a fairly consistent reflection of population growth combined with the aging of the population. There is some ebb and flow in the employment and health care infrastructure and investment builds out ahead of population trends, the population catches up, and then the next build-up begins. Employment in the sector ebbed in 2019 with average monthly payroll employment only increasing by 0.3%. We expect employment growth to pick up again in 2020 and 2021 with an average monthly payroll growth of 1.1% and 1.3% respectively.



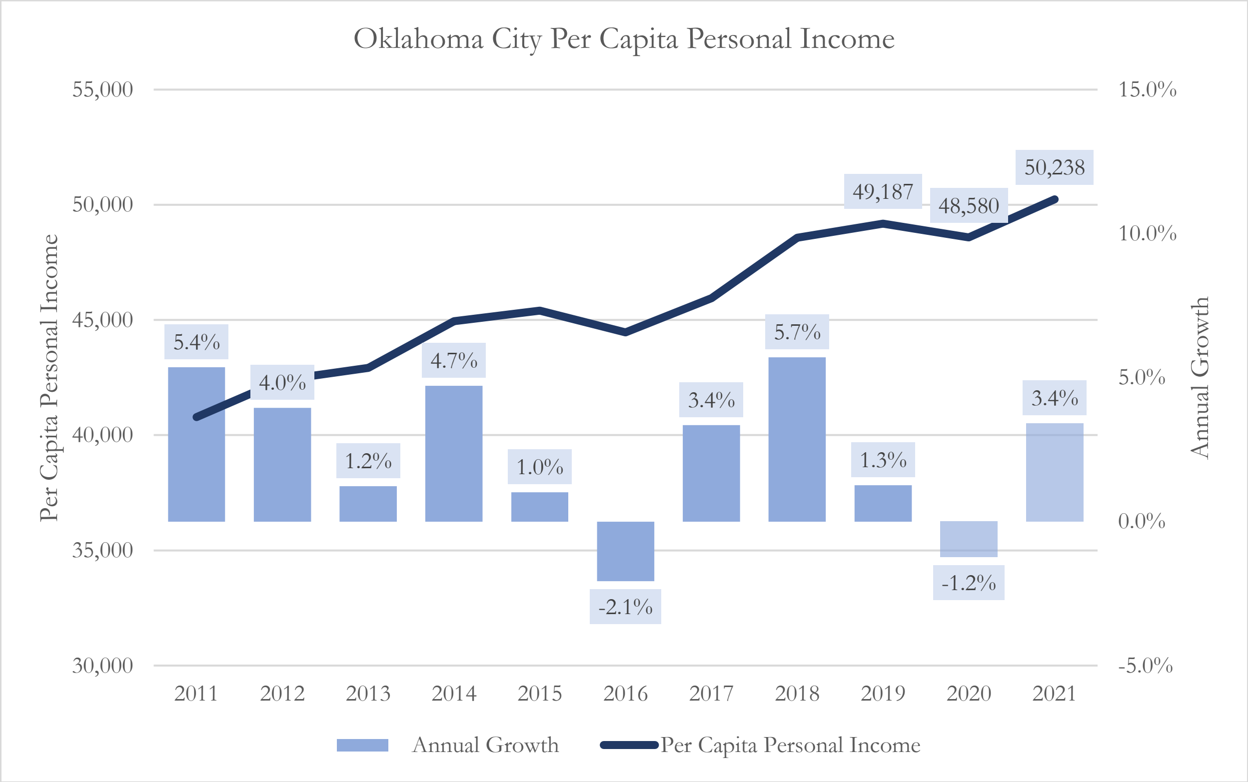
Leisure services employment contracted modestly in 2019, largely due to a drop in arts and entertainment-related employment. Additionally, growth in the hospitality and food services sector slowed somewhat. Growth is expected to return in 2020 with gains of 2.3% followed by growth of 2.8% in 2021. Note that the frequent comparison to the 2016 experience reassures that this industry can grow in employment even in an otherwise challenging economic environment. Finally, note that the forecast is a reflection of information currently in the data series and previous relationships in the data. No attempt is made to adjust to forecast for outside information. Specifically, the forecasted strength is organic and not a reflection of any specific assumption on the opening of hotels and other establishments planned for 2020.



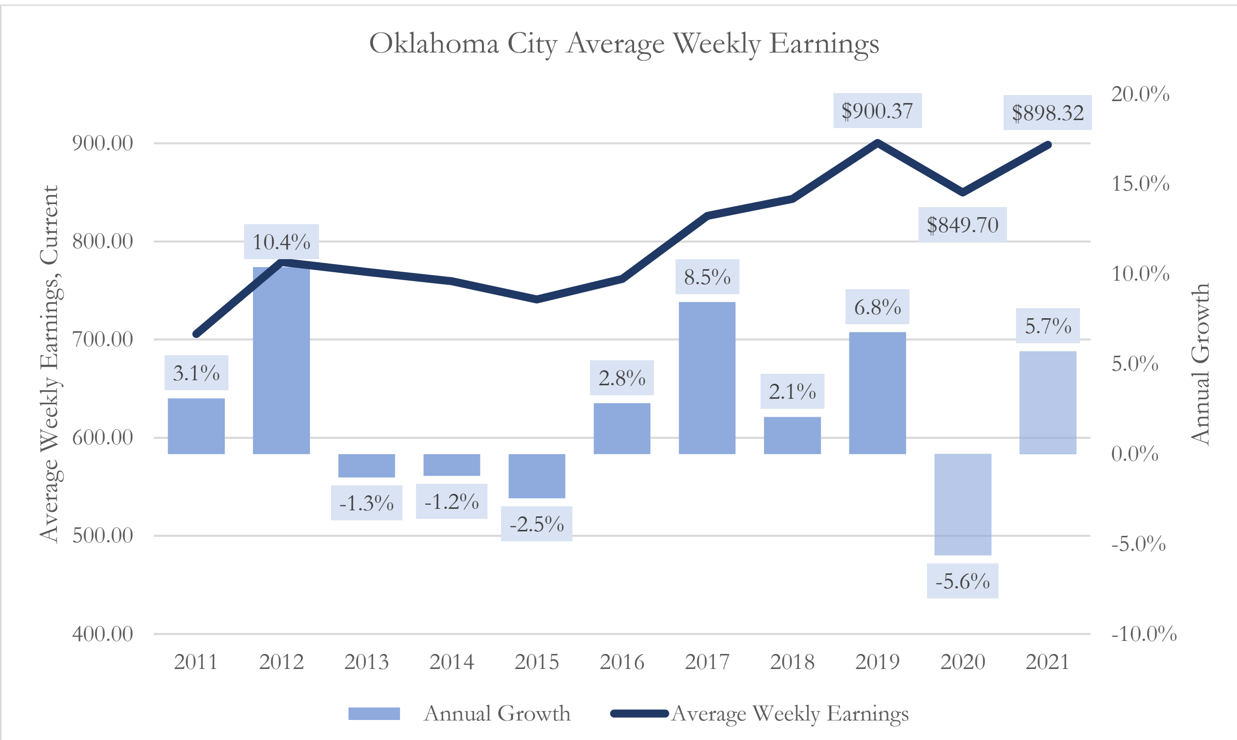
Oklahoma City population growth rates have exceeded those of any other area of the state. Much has been made (including in previous versions of this outlook) of the strength Oklahoma City enjoys by its position along the I-35 corridor. A recent slowdown in population growth and migration patterns is suggestive of a weakening of these fundamentals. The current period of weakness will not only slow population growth rates but obscure the reality (or lack thereof) of strength on the city's fundamental determinants of growth. Oklahoma City population is expected to grow at rates of 0.9%, 0.7%, and 1.3% in 2019, 2020, and 2021 respectively. Oklahoma City population likely passed the 1.4-million-person threshold in 2019 and is expected to approach 1.44 million by 2021.



Oklahoma City per capita income grew robustly during the last oil and gas recovery from 2017 through 2019. Per capita income grew at an annual rate of 3.4%, 5.7%, and 1.3% in those years. Weakness in the oil and gas sector will hit personal income both directly through falling compensation and indirectly through falling rents and royalty payments. We expect the impact on the growth of per capita personal income in 2020 to be similar to that of 2016 – down 1.2% in 2020 compared to down 2.1% in 2016. As general economic conditions improve and as the energy industry moves through a mild recovery in 2021, per capita personal income will grow by 3.4% and pass the $50,000 threshold.



Average weekly earnings posted strong growth in recent years as the pace of expansion in high earnings occupations exceeded (in relative importance) that of low earnings occupations. The result was average weekly earnings for the year exceeding $900 in 2019 after a growth of 8.5% in 2017 and 6.8% in 2019. Again, however, as the job losses in the high earnings oil and gas sector move through the system in 2020, average weekly earnings are likely to fall. We expect a somewhat steeper drop than in the previous contraction with average weekly earnings falling 5.6% in 2020 to $849.70 before recovering 5.7% in 2021 to again approach $900.



THE OKLAHOMA CITY FISCAL OUTLOOK

The economic outlook presented above presents 2020 as a year on the brink of recession. Current economic data are sufficient to merit concern, even caution, but are not yet informative enough to conclude contraction. The table below provides a comparison of the current value of variables often included in the sales tax models and their year-ago levels. The summary paints a picture that is neither promising nor bleak.

Statewide employment is now just below year-ago levels while Oklahoma City employment is just above. Average weekly earnings are up 1% from a year ago while household reported employment is down -0.5%. Most significantly, rig activity is down -63.8% from a year ago, the energy index is down -16.7%, and initial jobless claims are up 20.6%. The data summary below reveals an economy that is slowing, not crashing. And as yet, there is insufficient evidence to conclude that a crash is imminent. There is, however, sufficient evidence and experience to establish as a baseline expectation of an abrupt slowdown in sales tax collections. All evidence points to a limp to the finish line for fiscal year 2020.

Select Economic Variables: Current vs. Year-Ago			
Metric	Dec-19	Dec-18	% Change
Nonfarm Employment, Oklahoma	1,703.1	1,708.6	-0.3%
Private Employment, Oklahoma	1,350.2	1,355.4	-0.4%
Nonfarm Employment, Oklahoma City	664.1	660.3	0.6%
Private Employment, Oklahoma City	531.2	528.2	0.6%
Average Weekly Earnings, Oklahoma	$893.34	$885.36	0.9%
Average Weekly Earnings, Oklahoma City	$916.15	$905.61	1.2%
Rig Activity, Monthly Average	51	141	-63.8%
Oklahoma Initial Jobless Claims, Monthly Average	2,052	1,702	20.6%
Oklahoma Energy Index	190.7	228.9	-16.7%
Oklahoma City MSA Employment (Household, Nov.)	663,328	666,686	-0.5%
Oklahoma City MSA Labor Force (Household, Nov.)	684,701	684,831	0.0%

Budget Forecast, Performance, and Uncertainty		
Budget Workshop	FY 2018 Forecast	FY 2018 Actual
February 2017	3.8% to 4.2%	6.00%
Budget Workshop	FY 2019 Forecast	FY 2019 Actual
February 2018	3.0% to 3.3.%	3.27%
Budget Workshop	FY 2020 Forecast	FY 2020 Actual
February 2019	-1.3% to 3.1%	1.0% - 2.5%

In February 2017 sales tax collections were down -5.8% from the year before marking the seventeenth consecutive month of contraction. The sales tax collections would fall for two more months before turning positive in May. The ensuing recovery would support sales tax growth of 6.0% in fiscal year 2018 against the forecasted growth of 3.8% to 4.2%. The February 2018 workshop set baseline expectations in the range of 3.0% to 3.3% for fiscal year 2019. After a strong start to the year, growth cooled in the second half bringing fiscal year growth to 3.27%. In the February 2019 workshop reference was made to 2017 with the expectation that economic conditions would moderate by the second half of the calendar year. If anything, economic and fiscal performance exceeded expectations with an average monthly growth of 3.0% in the first quarter and growth of 4.9% in the second quarter. The turn in economic activity discussed in the previous workshop is (thankfully) a few months behind schedule but appears to be materializing now. We expect a mixed third quarter before collections turn flat to negative in the fourth quarter. All told, current expectations put fiscal year 2020 growth in the range of 1.0% to 2.5%.

The uncertainty that characterizes fiscal year 2021 is different than the uncertainty of 2020. The uncertainty of 2020 had to do with the timing and extent of the economic slowdown. That information has largely been revealed; the timing is slower in development and the extent likely less severe than the 2016 experience. The uncertainty in the coming fiscal year lies in the possibility that the contraction is worsened by some adverse event and becomes an outright Oklahoma recession. The data do not yet support this conclusion, but do signal a need for awareness and caution.

The outlook for 2021 presents three different model specifications. All models are constructed using the basic methodology of our monthly updates. The only factor that differs between the models is the exogenous influence – or the economic reality imposed on the model and its evaluation of the data. For example, the lower end of the forecast range asks the model to evaluate future sales tax collections under the condition that the economic outlook for statewide employment is true. Because the employment forecast predict a mild contraction through the much of 2020 that reality is imposed as true on the model. In doing so, the model predicts sharply falling collections for the remainder of fiscal year 2020 resulting in growth of only 0.66% and declining collections of -0.5% in fiscal year 2021. In this scenario, collections growth turns negative in May 2020 and stays negative to flat for eight months through December 2020.

The middle range is supported by a model specification that imposes no definitive expectation on the model. In this case, a slow period from May through December is offset but slightly stronger performance in the period before and after. The result is fiscal year 2020 growth of 1.95% and fiscal year 2021 growth of 1.3%. It is important to emphasize again that this model takes the data at face value and imposes no additional truths on the system.

Finally, the same specification is estimated with an exogenous indicator signaling no outright contraction materializing in the regional economy. In this specification, fiscal year 2020 growth is 2.18% and fiscal year 2021 growth is 1.64%.

Fiscal Year 2021 Baseline Forecast			
	Mild Contraction	No Model Influence	Avoids Contraction
Fiscal Year 2020	0.66%	1.95%	2.18%
Fiscal Year 2021	-0.50%	1.30%	1.64%

The exercise above allows the reader to impose their own outside truth on the model in forming expectations. What the data and all models consistently say, however, is that sales tax growth will slow considerably as the fiscal year concludes. The models have long indicated May and June as among the worst performing months of this fiscal year. These checks, whether negative, flat, or barely positive, could provide an important signal as to the economic truth heading into fiscal year 2021.

APPENDIX A: U.S. OUTLOOK TABLES

U.S. Economic Outlook Summary, 2011-2021											
Gross Domestic Product: Growth and Components	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real gross domestic product*	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	2.1	2.0
Major components of real GDP:											
Personal consumption expenditures	1.9	1.5	1.5	3.0	3.7	2.7	2.6	3.0	2.6	2.8	2.4
Nonresidential fixed investment	8.7	9.5	4.1	7.2	1.8	0.7	4.4	6.4	2.2	1.7	3.0
Residential investment	-0.1	13.0	12.4	3.8	10.2	6.5	3.5	-1.5	-1.7	0.5	-1.1
Change in private inventories ($ billions)	39.7	60.5	92.4	73.4	112.6	19.5	26.9	40.9	62.0	14.7	53.2
Gov't consumption & gross invest.*	-3.1	-2.1	-2.4	-0.9	1.9	1.8	0.7	1.7	2.2	1.9	0.8
Employment and Industrial Activity											
Private housing starts (thousands)	612	784	928	1000	1107	1178	1209	1250	1255	1268	1256
Light vehicle sales (millions)	12.7	14.4	15.5	16.5	17.4	17.5	17.1	17.2	16.9	16.7	16.5
Industrial production, total	3.1	3.0	2.0	3.1	-1.0	-2.0	2.3	3.9	0.8	0.3	1.4
Industrial production, mfg.*	2.9	2.6	0.9	1.1	-0.5	-0.8	2.0	2.3	-0.1	0.2	1.5
Manufacturing Capacity utilization (%)	73.5	74.5	74.4	75.2	75.3	74.2	75.1	76.6	75.6	74.6	74.5
Nonfarm payroll employment (millions)	131.9	134.2	136.4	138.9	141.8	144.3	146.6	149.1	151.4	153.3	154.4
Civilian unemployment rate (%)	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.4	3.5

U.S. Economic Outlook Summary, 2011-2021											
Prices, Productivity, & Costs	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Consumer Price Index, all items	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.4	1.8	1.9	1.8
Core CPI (excluding food, and energy)	1.7	2.1	1.8	1.8	1.8	2.2	1.8	2.1	2.2	2.4	2.2
Personal consumption expenditures price index	2.5	1.9	1.3	1.5	0.2	1.0	1.8	2.1	1.4	1.9	1.8
Core PCE price index	1.6	1.9	1.5	1.6	1.2	1.6	1.6	1.9	1.7	2.1	2.0
Compensation per hour	35.5	36.4	36.9	37.9	39.1	39.5	40.9	42.2	43.9	45.3	46.9
Output per hour	60.9	61.4	61.7	62.3	63.1	63.3	64.1	64.9	66.0	66.7	67.7
Price of WTI crude oil ($/barrel)	95.08	94.20	97.94	93.26	48.69	43.21	50.96	64.89	56.61	52.00	47.47
Price of Brent crude oil ($/barrel)	110.96	111.77	108.74	99.83	52.68	44.24	54.83	70.96	63.74	57.00	52.17
Income, Interest Rates, and the Deficit											
Federal funds rate	0.10	0.14	0.11	0.09	0.13	0.40	1.00	1.83	2.17	1.64	2.02
10-year Treasury-note yield	2.79	1.80	2.35	2.54	2.14	1.84	2.33	2.91	2.13	2.08	2.66
Disposable personal income ($ billions)	11873.6	12501.2	12505.3	13207.7	13780.0	14165.1	14833.0	15741.5	16475.5	17124.5	17824.6
Personal savings rate (%)	7.2	8.9	6.4	7.3	7.6	6.8	6.9	7.7	8.1	7.6	7.4
Unified federal surplus, fiscal year ($ billions)	-1296.8	-1089.2	-680.2	-483.6	-439.1	-587.4	-665.8	-779.0	-984.4	-1096.0	-1115.4

APPENDIX B: OKLAHOMA OUTLOOK TABLES

Oklahoma Employment Outlook by Sector, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nonfarm (baseline)	1,578.1	1,614.2	1,635.3	1,656.3	1,667.7	1,653.5	1,662.8	1,687.4	1,694.9	1,692.4	1,715.1
Annual Growth	1.4%	2.3%	1.3%	1.3%	0.7%	-0.8%	0.6%	1.5%	0.4%	-0.2%	1.3%
Nonfarm (pessimistic)	1,578.1	1,614.2	1,635.3	1,656.3	1,667.7	1,653.5	1,662.8	1,687.4	1,694.9	1,687.1	1,702.9
Annual Growth	1.4%	2.3%	1.3%	1.3%	0.7%	-0.8%	0.6%	1.5%	0.4%	-0.5%	0.9%
Private (baseline)	1,234.0	1,267.0	1,286.7	1,307.9	1,316.5	1,301.2	1,313.5	1,339.8	1,347.9	1,344.8	1,367.9
Annual Growth	2.2%	2.7%	1.6%	1.6%	0.7%	-1.2%	0.9%	2.0%	0.6%	-0.2%	1.7%
Private (pessimistic)	1,234.0	1,267.0	1,286.7	1,307.9	1,316.5	1,301.2	1,313.5	1,339.8	1,347.8	1,338.8	1,356.3
Annual Growth	2.2%	2.7%	1.6%	1.6%	0.7%	-1.2%	0.9%	2.0%	0.6%	-0.7%	1.3%
Goods	256.8	271.5	277.3	282.4	274.6	256.1	259.5	271.1	272.1	262.9	273.3
Annual Growth	6.7%	5.7%	2.2%	1.8%	-2.8%	-6.7%	1.3%	4.5%	0.4%	-3.4%	4.0%
Services (baseline)	1,321.3	1,342.7	1,358.0	1,373.8	1,393.0	1,397.4	1,403.3	1,416.3	1,422.8	1,429.5	1,441.8
Annual Growth	0.5%	1.6%	1.1%	1.2%	1.4%	0.3%	0.4%	0.9%	0.5%	0.5%	0.9%
Services (pessimistic)	1,321.3	1,342.7	1,358.0	1,373.8	1,393.0	1,397.4	1,403.3	1,416.3	1,422.7	1,418.4	1,421.0
Annual Growth	0.5%	1.6%	1.1%	1.2%	1.4%	0.3%	0.4%	0.9%	0.4%	-0.3%	0.2%
Information	23.0	22.5	21.8	21.2	21.2	21.2	20.5	19.9	19.0	19.1	18.4
Annual Growth	-5.0%	-2.5%	-3.0%	-2.7%	0.0%	-0.1%	-3.3%	-3.0%	-4.4%	0.5%	-3.7%
Mining	51.9	58.6	60.0	62.2	54.4	44.2	48.1	53.1	52.7	46.8	52.3
Annual Growth	18.2%	13.0%	2.5%	3.6%	-12.6%	-18.7%	8.9%	10.3%	-0.7%	-11.2%	11.8%
Construction	68.3	70.5	74.8	75.5	77.6	77.5	77.5	80.4	83.9	84.8	86.6
Annual Growth	1.9%	3.2%	6.1%	0.9%	2.8%	-0.1%	0.0%	3.7%	4.4%	1.0%	2.1%
Manufacturing	136.6	142.4	142.5	144.8	142.7	134.4	133.8	137.6	135.5	131.4	134.4
Annual Growth	5.2%	4.2%	0.1%	1.6%	-1.4%	-5.8%	-0.4%	2.8%	-1.5%	-3.0%	2.3%

Oklahoma Employment Outlook by Sector, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Trade, Transport, Utilities	275.0	282.5	288.2	295.4	300.6	299.5	296.7	299.6	303.7	303.9	306.5
Annual Growth	1.8%	2.8%	2.0%	2.5%	1.8%	-0.3%	-0.9%	1.0%	1.4%	0.0%	0.9%
Wholesale	54.7	56.7	57.9	59.4	58.5	56.5	56.8	57.5	59.5	60.1	61.9
Annual Growth	3.1%	3.6%	2.1%	2.7%	-1.6%	-3.3%	0.5%	1.2%	3.6%	1.0%	3.0%
Retail	170.6	173.1	175.1	178.9	183.2	183.9	179.2	178.2	178.3	177.1	176.3
Annual Growth	1.1%	1.5%	1.1%	2.2%	2.4%	0.4%	-2.6%	-0.5%	0.0%	-0.7%	-0.4%
Transport, Warehouse, Utilities	49.7	52.7	55.3	57.1	58.9	59.1	60.8	63.9	65.9	66.7	68.3
Annual Growth	3.1%	6.1%	4.9%	3.1%	3.2%	0.4%	2.8%	5.2%	3.0%	1.2%	2.4%
Financial Services	77.6	78.2	78.9	79.6	79.5	78.8	78.8	79.2	79.3	78.0	78.4
Annual Growth	-0.7%	0.7%	1.0%	0.8%	-0.1%	-0.9%	0.1%	0.5%	0.1%	-1.7%	0.6%
Real Estate	19.5	19.8	20.5	20.9	20.8	20.5	20.6	21.2	21.9	21.2	21.6
Annual Growth	-1.5%	1.5%	3.2%	2.0%	-0.3%	-1.4%	0.5%	3.2%	2.9%	-2.8%	1.5%
Professional/Business Services	176.4	180.1	181.8	185.0	184.7	182.3	186.3	190.3	189.1	189.8	192.8
Annual Growth	2.1%	2.1%	0.9%	1.8%	-0.1%	-1.3%	2.2%	2.2%	-0.7%	0.4%	1.6%
Scientific	64.8	66.4	67.4	68.3	69.6	69.6	70.4	72.5	72.4	73.2	74.0
Annual Growth	1.3%	2.4%	1.6%	1.2%	1.9%	0.1%	1.1%	2.9%	-0.2%	1.2%	1.1%
Management	16.9	17.8	18.1	18.3	18.6	18.7	18.8	19.0	19.1	19.3	19.4
Annual Growth	3.9%	5.6%	1.8%	1.1%	1.5%	0.8%	0.5%	1.1%	0.0%	1.4%	0.3%
Administrative	94.7	95.9	96.2	98.4	96.5	93.9	97.0	98.8	97.6	97.3	99.4
Annual Growth	2.4%	1.3%	0.3%	2.3%	-1.9%	-2.8%	3.3%	1.8%	-1.2%	-0.4%	2.2%

Oklahoma Employment Outlook by Sector, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Ed/Health	223.2	226.3	227.7	228.1	231.5	233.8	235.4	236.4	238.7	240.3	242.0
Annual Growth	0.7%	1.4%	0.6%	0.2%	1.5%	1.0%	0.7%	0.4%	1.0%	0.7%	0.7%
Education	19.1	19.2	19.4	19.7	19.9	20.0	19.7	19.9	19.3	19.5	19.6
Annual Growth	3.4%	0.7%	1.0%	1.7%	1.0%	0.3%	-1.4%	0.9%	-3.2%	1.4%	0.5%
Health Services	204.1	207.1	208.3	208.3	211.6	213.8	215.7	216.5	219.4	220.8	222.3
Annual Growth	0.5%	1.5%	0.6%	0.0%	1.6%	1.0%	0.9%	0.4%	1.4%	0.6%	0.7%
Leisure Services	143.2	147.4	151.8	156.2	161.9	165.3	167.6	171.8	172.3	175.8	179.4
Annual Growth	2.9%	3.0%	3.0%	2.9%	3.7%	2.1%	1.4%	2.6%	0.2%	2.0%	2.1%
Arts	14.3	14.5	14.9	15.1	16.4	16.9	17.1	17.3	16.9	17.3	17.5
Annual Growth	-0.6%	1.5%	2.5%	1.6%	8.3%	3.5%	0.7%	1.7%	-2.7%	2.7%	0.8%
Accommodation	128.9	132.9	136.9	141.1	145.5	148.4	150.5	154.5	155.4	158.5	162.0
Annual Growth	3.3%	3.1%	3.1%	3.0%	3.2%	1.9%	1.4%	2.7%	0.6%	2.0%	2.2%
Other Services	58.8	58.6	59.1	60.1	62.4	64.3	68.7	71.5	73.7	75.0	77.2
Annual Growth	-3.0%	-0.4%	0.9%	1.7%	3.8%	3.0%	6.9%	4.0%	3.1%	1.8%	2.8%
Government	344.1	347.2	348.6	348.3	351.2	352.3	349.4	347.6	347.1	347.6	347.2
Annual Growth	-1.3%	0.9%	0.4%	-0.1%	0.8%	0.3%	-0.8%	-0.5%	-0.2%	0.2%	-0.1%
Federal	49.1	48.3	47.1	46.3	47.0	48.1	48.5	49.1	49.8	50.7	50.7
Annual Growth	-2.6%	-1.7%	-2.4%	-1.8%	1.5%	2.4%	0.8%	1.3%	1.4%	1.8%	0.0%
State	84.9	86.5	86.3	85.8	85.6	85.0	83.3	81.8	81.1	80.2	79.6
Annual Growth	1.2%	1.8%	-0.2%	-0.6%	-0.2%	-0.7%	-1.9%	-1.8%	-0.9%	-1.1%	-0.7%
Local	210.0	212.4	215.2	216.3	218.7	219.3	217.5	216.6	216.2	216.7	216.9
Annual Growth	-1.9%	1.1%	1.3%	0.5%	1.1%	0.3%	-0.8%	-0.4%	-0.2%	0.3%	0.1%

Oklahoma Quarterly Income, Population, GDP										
	2019:Q3	2019:Q4	2020:Q1	2020:Q2	2020:Q3	2020:Q4	2021:Q1	2021:Q2	2021:Q3	2021:Q4
OK Personal Income	190,276.6	189,299.0	187,683.3	186,824.4	187,112.5	188,265.4	189,739.9	191,816.2	193,874.4	195,895.4
Annualized Growth	3.1%	-2.0%	-3.4%	-1.8%	0.6%	2.5%	3.2%	4.4%	4.4%	4.2%
OK Population	3,955,108	3,957,387	3,959,787	3,962,326	3,965,017	3,967,871	3,970,897	3,974,100	3,977,483	3,981,045
Annualized Growth	0.3%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
OK Per Cap Income	48,109	47,834	47,397	47,150	47,191	47,447	47,783	48,267	48,743	49,207
Annualized Growth	2.7%	-2.3%	-3.6%	-2.1%	0.3%	2.2%	2.9%	4.1%	4.0%	3.9%
OK Real GDP	202,058.6	200,000.5	198,915.8	195,859.3	197,187.0	197,560.5	199,381.0	201,687.9	203,007.4	204,366.5
Annualized Growth	1.9%	-4.0%	-2.2%	-6.0%	2.7%	0.8%	3.7%	4.7%	2.6%	2.7%

Oklahoma Annual Income, Population, and Gross Domestic Product, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
OK Personal Income	147,889.6	158,353.9	166,063.4	176,621.9	172,992.1	164,419.0	171,597.4	182,301.9	189,250.5	187,471.4	192,831.5
Annual Growth	7.6%	7.1%	4.9%	6.4%	-2.1%	-5.0%	4.4%	6.2%	3.8%	-0.9%	2.9%
OK Population	3,788,629	3,819,807	3,852,569	3,879,919	3,908,603	3,925,924	3,933,708	3,943,499	3,953,558	3,963,750	3,975,881
Annual Growth	0.8%	0.8%	0.9%	0.7%	0.7%	0.4%	0.2%	0.2%	0.3%	0.3%	0.3%
OK Per Cap Income	39,034	41,455	43,104	45,521	44,260	41,881	43,622	46,228	47,868	47,296	48,500
Annual Growth	6.8%	6.2%	4.0%	5.6%	-2.8%	-5.4%	4.2%	6.0%	3.5%	-1.2%	2.5%
OK Real GDP	165,153	173,484	177,602	187,739	195,902	190,110	191,544	196,525	201,155	197,381	202,111
Annual Growth	3.7%	5.0%	2.4%	5.7%	4.3%	-3.0%	0.8%	2.6%	2.4%	-1.9%	2.4%

APPENDIX C: OKLAHOMA CITY OUTLOOK TABLES

Oklahoma City Employment Outlook by Sector, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nonfarm (baseline)	580.1	594.7	608.7	620.5	630.4	629.8	635.7	649.6	657.5	660.4	671.2
Annual Growth	2.3%	2.5%	2.4%	1.9%	1.6%	-0.1%	0.9%	2.2%	1.2%	0.5%	1.6%
Nonfarm (pessimistic)	580.1	594.7	608.7	620.5	630.4	629.8	635.7	649.6	657.6	659.1	668.9
Annual Growth	2.3%	2.5%	2.4%	1.9%	1.6%	-0.1%	0.9%	2.2%	1.2%	0.2%	1.5%
Private (baseline)	458.4	472.2	484.1	495.8	503.4	500.8	507.4	520.7	526.9	529.4	538.8
Annual Growth	3.0%	3.0%	2.5%	2.4%	1.5%	-0.5%	1.3%	2.6%	1.2%	0.5%	1.8%
Private (pessimistic)	458.4	472.2	484.1	495.8	503.4	500.8	507.4	520.7	526.9	527.4	536.6
Annual Growth	3.0%	3.0%	2.5%	2.4%	1.5%	-0.5%	1.3%	2.6%	1.2%	0.1%	1.7%
Goods	75.8	81.6	84.5	87.5	86.6	80.4	81.6	85.9	88.5	85.6	86.8
Annual Growth	7.5%	7.7%	3.5%	3.6%	-1.0%	-7.2%	1.4%	5.3%	3.0%	-3.3%	1.5%
Services (baseline)	504.3	513.0	524.2	533.0	543.7	549.4	554.2	563.7	569.1	575.1	584.4
Annual Growth	1.6%	1.7%	2.2%	1.7%	2.0%	1.0%	0.9%	1.7%	0.9%	1.1%	1.6%
Services (pessimistic)	504.3	513.0	524.2	533.0	543.7	549.4	554.2	563.7	569.1	573.5	582.1
Annual Growth	1.6%	1.7%	2.2%	1.7%	2.0%	1.0%	0.9%	1.7%	1.0%	0.8%	1.5%
Mining	17.0	20.0	20.8	21.6	19.9	16.5	18.7	21.8	21.6	20.3	21.3
Annual Growth	19.0%	17.7%	4.3%	3.5%	-7.5%	-17.1%	13.3%	16.3%	-1.0%	-6.1%	4.9%
Construction	25.9	26.6	27.2	28.4	29.3	29.3	29.4	30.2	32.8	32.3	33.3
Annual Growth	2.8%	2.5%	2.2%	4.6%	3.0%	0.3%	0.2%	2.9%	8.3%	-1.5%	3.3%
Manufacturing	32.9	35.1	36.5	37.5	37.4	34.5	33.4	33.9	34.1	33.0	32.2
Annual Growth	6.1%	6.6%	4.0%	2.9%	-0.2%	-7.7%	-3.2%	1.4%	0.7%	-3.2%	-2.5%
Trade, Transport, Utilities	99.9	102.8	106.9	109.4	111.7	112.0	111.5	112.5	113.9	114.1	115.9
Annual Growth	2.8%	2.9%	4.0%	2.4%	2.1%	0.2%	-0.4%	0.9%	1.2%	0.2%	1.6%
Wholesale	21.4	22.6	23.7	24.3	24.5	23.8	23.9	24.2	25.4	25.4	26.2
Annual Growth	4.7%	5.5%	5.2%	2.4%	0.6%	-2.5%	0.3%	1.1%	4.9%	0.1%	3.3%
Retail	61.2	62.4	64.2	66.0	67.7	68.2	66.7	66.2	65.5	64.8	64.8
Annual Growth	1.8%	1.9%	3.0%	2.7%	2.6%	0.9%	-2.3%	-0.8%	-1.0%	-1.0%	-0.1%
Transport, Warehouse, Utilities	17.3	17.8	18.9	19.1	19.6	19.9	20.9	22.2	23.0	23.9	24.9
Annual Growth	4.1%	3.3%	5.9%	1.2%	2.6%	1.4%	5.2%	6.0%	3.8%	3.7%	4.4%

Oklahoma City Employment Outlook by Sector, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Information	9.0	8.6	8.2	8.1	8.3	8.2	7.7	7.4	7.2	7.0	6.8
Annual Growth	-5.8%	-4.4%	-4.7%	-0.7%	1.5%	-1.2%	-6.0%	-4.1%	-2.0%	-3.4%	-3.0%
Financial Services	30.9	31.8	32.4	33.2	33.4	33.2	33.3	33.4	33.2	33.4	33.6
Annual Growth	-0.6%	3.0%	2.0%	2.3%	0.7%	-0.7%	0.3%	0.3%	-0.5%	0.6%	0.6%
Professional/Business Services	75.8	76.8	77.6	78.7	79.7	79.6	81.5	85.0	86.9	86.8	88.7
Annual Growth	3.6%	1.3%	1.1%	1.4%	1.2%	0.0%	2.3%	4.3%	2.2%	-0.1%	2.2%
Scientific	29.1	30.0	29.9	30.2	31.2	32.4	33.2	34.3	35.9	36.4	37.4
Annual Growth	3.0%	2.8%	-0.2%	0.9%	3.5%	3.7%	2.6%	3.2%	4.8%	1.4%	2.7%
Management	7.8	8.8	9.0	9.4	9.5	9.5	9.8	10.3	10.4	10.7	10.9
Annual Growth	7.2%	12.8%	2.5%	4.5%	1.2%	-0.5%	3.3%	4.9%	1.1%	2.6%	2.7%
Administrative	38.9	38.1	38.7	39.1	38.9	37.8	38.5	40.5	40.6	39.7	40.4
Annual Growth	3.3%	-2.1%	1.8%	1.1%	-0.5%	-2.9%	1.9%	5.1%	0.3%	-2.1%	1.6%
Ed/Health Services	84.4	86.4	88.0	88.9	90.5	91.2	92.0	93.2	93.5	94.5	95.7
Annual Growth	1.4%	2.4%	1.7%	1.1%	1.8%	0.7%	1.0%	1.3%	0.3%	1.1%	1.3%
Health Services	75.5	77.4	78.7	79.5	81.1	81.9	83.0	83.7	86.2	86.8	88.1
Annual Growth	0.9%	2.5%	1.7%	1.0%	2.0%	1.0%	1.3%	0.9%	3.0%	0.7%	1.5%
Leisure	60.0	61.7	64.2	65.9	68.0	70.0	71.7	74.2	74.1	75.8	78.0
Annual Growth	4.2%	2.9%	4.0%	2.7%	3.1%	2.9%	2.5%	3.4%	-0.1%	2.3%	2.8%
Other	22.7	22.4	22.4	24.0	25.2	26.4	28.2	29.2	29.7	30.4	31.2
Annual Growth	0.0%	-1.4%	0.0%	7.3%	5.0%	4.5%	6.8%	3.5%	1.9%	2.2%	2.7%
Government	121.7	122.5	124.6	124.7	127.0	129.0	128.3	128.9	130.6	131.6	132.3
Annual Growth	-0.2%	0.6%	1.7%	0.1%	1.8%	1.6%	-0.5%	0.5%	1.3%	0.8%	0.5%
Federal	28.4	28.2	27.6	26.9	27.4	28.3	28.8	29.2	29.5	30.3	30.5
Annual Growth	0.9%	-0.6%	-2.2%	-2.4%	2.0%	3.2%	1.7%	1.3%	1.1%	2.6%	0.7%
State	42.1	42.4	43.5	44.4	45.3	46.2	45.8	45.8	46.3	46.7	47.0
Annual Growth	0.8%	0.8%	2.6%	2.0%	2.0%	2.0%	-0.8%	-0.1%	1.1%	0.9%	0.7%
Local	51.3	51.9	53.6	53.5	54.3	54.5	53.7	54.0	54.9	54.7	54.8
Annual Growth	-1.7%	1.2%	3.2%	-0.2%	1.5%	0.4%	-1.5%	0.6%	1.6%	-0.3%	0.2%

Oklahoma City Production, Population, Income, and Earnings, 2011-2021											
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Personal Income (thou)	52,094,553	55,052,398	56,690,805	60,086,474	61,654,662	61,095,054	63,561,386	67,827,244	69,325,569	68,923,481	72,202,128
Annual Growth	7.0%	5.7%	3.0%	6.0%	2.6%	-0.9%	4.0%	6.7%	2.2%	-0.6%	4.8%
Population	1,277,284	1,298,476	1,320,817	1,336,940	1,358,012	1,374,153	1,383,249	1,396,445	1,409,432	1,418,765	1,437,209
Annual Growth	1.5%	1.7%	1.7%	1.2%	1.6%	1.2%	0.7%	1.0%	0.9%	0.7%	1.3%
Per Capita Personal Income	40,785	42,398	42,921	44,943	45,401	44,460	45,951	48,571	49,187	48,580	50,238
Annual Growth	5.4%	4.0%	1.2%	4.7%	1.0%	-2.1%	3.4%	5.7%	1.3%	-1.2%	3.4%
Real Gross Metro Product	62,767,914	66,814,963	69,422,004	72,667,813	77,856,498	76,633,959	77,302,505	79,667,931	85,633,620	84,497,405	86,793,791
Annual Growth	4.0%	6.4%	3.9%	4.7%	7.1%	-1.6%	0.9%	3.1%	7.5%	-1.3%	2.7%
Average Weekly Earnings	705.68	778.97	768.85	759.55	740.86	761.76	826.14	843.20	900.37	849.70	898.32
Annual Growth	3.1%	10.4%	-1.3%	-1.2%	-2.5%	2.8%	8.5%	2.1%	6.8%	-5.6%	5.7%

DATA SOURCES

All employment and weekly earnings data series are pulled from the state and local Current Employment Statistics (CES) published by the Bureau of Labor Statistics (BLS). All GDP, income, and population data series are compiled by the Bureau of Economic Analysis (BEA). All state and local forecasted values are the work product of the Economic Research and Policy Institute (ERPI) at Oklahoma City University. For questions regarding this outlook or conditions in the Oklahoma economy, contact:

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SECTION 5

SUCCESSFUL OUTCOMES AND FORECAST ISSUES

SUCCESSFUL OUTCOMES

Every year the Office of Management and Budget asks staff from each Department to identify the top three financial issues they will be facing over the next five years. When the need is met, the issue drops off the list. Issues with successful outcomes were able to align to financial resources with long-term service objectives and were made possible by identifying issues early so that staff could develop and evaluate strategies that were then recommended to City Council. To share those successful outcomes and close the communication loop, 15 previous issues have been summarized on the following pages.

The goal is to provide an "early warning system" about significant financial issues that are generally beyond the scope of the annual budget process.

EARLY WARNING SYSTEM

The Forecast Issues section highlights key financial issues facing departments in the coming years. By raising awareness of the issues being faced in the intermediate and long-term future, and highlighting the consequences of not addressing them, we are able to identify issues for further examination, discussion and action. Many of these issues are ongoing needs that do not have a specific deadline for addressing them. Some issues, however, do have specific legal or other deadlines. Where there is a specific timeframe, the fiscal year when action must be completed has been identified.

Highlighted Issues. Issues that have a significant impact on services provided to citizens, City operations, or funding sources are highlighted for additional attention and begin on page 94. This year we are highlighting six major issues for additional attention. Some of the six are cross-cutting issues that impact multiple departments, such as capital maintenance costs and employee recruitment, classification and compensation. The discussion on each issue includes the possible direction or next steps for the issue to stimulate conversation and action.

Department Issues. Overall, there are a total of 49 issues that departments are facing, including the six major issues highlighted. Also included is a narrative from each department that provides a short description of the most critical issues they are facing over the next five years.

LONG-TERM REVENUE ENHANCEMENT

The list of needs facing City departments is extensive. While some of the smaller cost items may be addressed through the current revenue structure, effectively addressing the critical higher cost issues will require new revenue sources. Possible revenue sources available that provide significant revenue include: property tax for capital and/or operations; increasing the rate for taxes such as Hotel Tax; expanding the sales tax base to tax services that are currently exempt; and enacting new taxes such as a City Fuel Tax. Any new or increased taxes would require a vote of the people to enact and Property tax for operations would also require a change in Oklahoma law to allow municipalities to use property tax for operations as counties and schools do now.

SUCCESSFUL OUTCOMES

ANIMAL WELFARE RESPONSE

DEPARTMENT:
Development Services

OVERVIEW:
Providing timely field responses to calls for service is not only a high priority but can be lifesaving when faced with a dangerous animal situation. In FY20 four Animal Welfare Officer II positions and one Animal Welfare Supervisor position were added to allow for enough staffing to cover every identified district during the day and to expand evening hours from 5 p.m. to 9 p.m. daily. Current FY20 projections show a 13% increase in call responses provided and an 8% increase in calls responded to within specified time frames.

STATUS:
Staffing levels increased by five in FY20.

FUNDING SOURCE:
General Fund

COST:
Positions cost $300,000 annually

MAPS 4

DEPARTMENT:
City Manager

OVERVIEW:
Oklahoma City voters overwhelmingly approved a new chapter in Oklahoma City's renaissance with the passage of MAPS 4 on December 10, 2019. MAPS 4 has a broader focus on an array of human and community needs, such as homelessness and family justice, in addition to capital improvements, including a multi-purpose stadium, the Clara Luper Civil Rights Center and a new Fairgrounds arena.

STATUS:
City Council is currently establishing the structure and members of the citizen advisory board that will help guide the MAPS 4 program.

FUNDING SOURCE:
MAPS 4 sales tax will start being collected in April 1, 2020

Projected Revenue:
$978 million over eight years

PUBLIC SAFETY CAPITAL FUNDING

DEPARTMENT:
Fire, Police

OVERVIEW:
The City has funded public safety capital expenses, including equipment, vehicles and facilities, through temporary use taxes in recent years. The MAPS 3 use tax expired in FY19 and the Better Streets, Safer City use tax is expected to fund Police and Fire's capital needs through FY21. When the MAPS 4 program and sales tax was approved by the city's voters on December 10, 2019, the ability to start collecting a new use tax of equal rate to the sales tax was secured. The MAPS use tax will provide Fire and Police with a dedicated capital funding source for at least the next eight years.

STATUS:
Dedicated funding secured with approval of the MAPS 4 program.

FUNDING SOURCE:
MAPS 4 use tax will start being collected in Spring 2020

COST:
$12-$15 million annually

SUCCESSFUL OUTCOMES

GO BOND PACKAGE

DEPARTMENT:
Various

OVERVIEW:
A $967 million General Obligation (GO) Bond Package was approved by Oklahoma City voters in September 2017. The package included 13 propositions to fund projects throughout the City and will succeed the 2007 package which is almost complete.

Streets/Sidewalks	$491 million
Traffic Control	$28 million
Bridges	$27 million
Parks	$138 million
Drainage Control	$62 million
Economic Dev	$60 million
Fire	$45 million
Police	$31 million
Libraries	$24 million
Transit	$20 million
Civic Center	$20 million
Maintenance Facilities	$13 million
Downtown Arena	$9 million

STATUS:
Passed by voters, September 2017.

FUNDING SOURCE:
Property Taxes; millage rate to remain at or below 16 mills as it has been since the 1980s

COST:
$967 million

BETTER STREETS SAFER CITY

ONE CENT TEMPORARY TAX

DEPARTMENT:
Public Works, Parks, Planning

OVERVIEW:
Oklahoma City voters approved the Better Streets, Safer City temporary sales tax in September 2017. The 27-month penny sales tax is a continuation of the expiring MAPS 3 Sales Tax and is expected to fund $168 million in street resurfacing, $24 million in street enhancements, $24 million in sidewalks, $12 million in trails, and $12 million in bicycle infrastructure such as bike lanes. The debt-free projects will provide smooth and safe streets for drivers, on-street amenities for recreational and commuting cyclists, and streetscapes and trails that protect pedestrians and cyclists.

STATUS:
Passed by voters, September 2017; sales tax began January 1, 2018.

FUNDING SOURCE:
27-month penny sales tax

PROJECTED REVENUE:
$240 million

¼ CENT SALES TAX

DEPARTMENT:
Various

OVERVIEW:
A permanent ¼ cent sales tax was approved by Oklahoma City voters in September 2017 and took effect January 1, 2018. The tax will invest primarily in public safety funding the addition of 129 Police officers, 60 fire fighters, 5 positions in Public Works and funding other day-to-day operations in the City's General Fund. This was the first increase in the permanent general operations sales tax rate since 1976.

STATUS:
Passed by voters, September 2017; ¼ cent increases began January 1, 2018. Fire and Public Works have filled their positions; Police has 74 recruits in the Police Academy while they continue to actively recruit to fill all positions.

FUNDING SOURCE:
General Fund; ¼ cent permanent sales tax increase

PROJECTED REVENUE:
$26 million annually

SUCCESSFUL OUTCOMES

OPEN RECORDS REQUEST

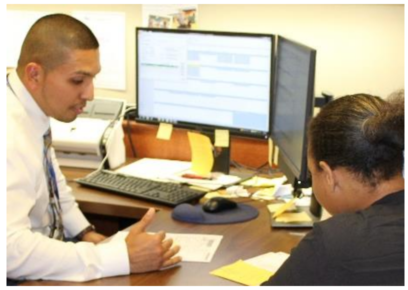
DEPARTMENT:
City Clerk's Office

OVERVIEW:
Due to the increasingly high volume of open records requests, the City Implemented a new technological solution to address the need for timely responses. The system tracks requests and documents through workflow, allowing complete oversight of the request from beginning to end ensuring all steps have been taken to fulfill legal requirements and provide high quality service to residents.

STATUS:
The JustFOIA system was launched November 13, 2018 and has over 200 users citywide, facilitating responses to 500 requests monthly. The responses are being sent to the public, news media and city employees at a faster rate due to the new system.

FUNDING SOURCE:
General Fund

COST:
$12,000 annually



COURT SERVICE LEVELS

DEPARTMENT:
Municipal Court

OVERVIEW:
In July 2017, a Community Relations Coordinator position was added to develop and implement programs to help court customers make an informed decision about their case, and overcome obstacles such as fear, uncertainty or language barriers. The Community Relations Program ensures timely jail releases, conducts monthly outreach events and responds to correspondences that result in more than 100 cases a month being disposed. A second Community Relations Coordinator was added in FY19.

STATUS:
Implemented in FY18 with one position and expanded in FY19 to two positions.

FUNDING SOURCE:
Municipal Court General Fund

COST:
$140,000 annually

SAVINGS: There is an indirect savings to the City's Jail contract as customers resolve issues and avoid jail.

FAM CONSTRUCTION

DEPARTMENT:
Finance

OVERVIEW:
The First Americans Museum has resumed construction with $65 million needed to complete construction which includes the $9 million committed by the City complete the project. The museum is expected to open in 2021. Exceptional growth in FY18 General Fund revenues allowed the City to set aside the funds in the Capital Improvement Fund until they are needed rather than facilitate an internal loan to be repaid by the General Fund from sales tax generated by the FAM and surrounding development.

STATUS:
Funding commitment set aside in FY18 in the Capital Improvement Fund until needed.

FUNDING SOURCE:
General Fund

COST:
$9 million

SUCCESSFUL OUTCOMES

DEVELOPMENT CENTER

DEPARTMENT:
Development Services

OVERVIEW:
Providing quick turnaround for construction inspections and timely review of commercial new construction and remodel plans is essential to supporting a developing community. Five positions were added to the Development Center in FY19 including a new Development Center Liaison that assists the development community in navigating the City's process for codes, permits and zoning.

STATUS:
Staffing levels increased by five in FY19.

FUNDING SOURCE:
General Fund

COST:
$7.4 million - FY20 Development Center Budget

MAPS 3 OPERATING COST

DEPARTMENT:
Parks and Recreation, Public Transportation & Parking

OVERVIEW:
Operating costs have been identified and funded for all eight of the MAPS 3 Projects. User fees and sponsorships help fund the Health and Wellness Centers, improvements to the river and fairgrounds, the Oklahoma City Streetcar and Scissortail Park. The Streetcar and Scissortail Park both required additional support from the General Fund which was phased in during FY18 and FY19 as both venues prepared for FY19 openings to the public. The Streetcar began operation in December 2018 and Scissortail Park Upper Park opened in September 2019.

STATUS:
Operating Costs for the Streetcar and Scissortail Park were included in FY19 General Fund Budget; Operating Costs for the new convention center are included in the General Fund Expenditure Outlook.

FUNDING SOURCE:
General Fund

COST:
$6.8 Million Annually

LIVE RELEASE RATE

DEPARTMENT:
Development Services

OVERVIEW:
The City exceeded its 80% target with an 84% live release rate in FY19, a significant increase from 35% in FY08, prior to the target being set. Progress has been attributed to lowering animal intakes through the community spay and neuter program, implementing managed intake and increasing the number of animals adopted or transferred out.

STATUS:
FY19 live release rate was 84%; FY20 target is 90%.

FUNDING SOURCE:
General Fund, donations, and grants

COST:
$4.9 million - FY20 Animal Welfare Budget

SUCCESSFUL OUTCOMES

RADIO SYSTEM

DEPARTMENT:
Information Technology

OVERVIEW:
The City's Enhanced Digital Access Communication System (EDACS) trunked radio was declared at "end-of-life" by the manufacturer with support ending in 2019. A new radio system was purchased in FY18 with phased replacement of the current system and radios. The new system is P25, or Project 25, which means it meets a suite of standards developed to provide digital voice and data communication systems suited to public safety and first responders. Other local government entities have agreements with the City to use our radio system and pay an annual user fee in addition to a proportional share of the annual debt payment for the cost of the new radio system.

STATUS:
Purchased in FY18 with phased implementation.

FUNDING SOURCE:
General Fund, City Trusts, and other local government entities

COST:
$13.1 million

EXPANDED BUS SERVICE

DEPARTMENT:
Public Transportation & Parking

OVERVIEW:
Holiday bus service was added in FY20 so that bus service is available 365 days a year. Sunday bus service, which replicates Saturday service, was implemented in FY19. Service is provided on 16 routes with one-hour frequency from 6:00 a.m. to 6:30 p.m. The service level moves Oklahoma City in-line with other major cities that provide bus service 7 days a week. The increased service level required adding 22 positions including bus operators, mechanics, and maintenance personnel.

STATUS:
Holiday service began on July 4, 2019. Sunday service began January 27, 2019.

FUNDING SOURCE:
Annual General Fund payment to Central Oklahoma Transportation and Parking Authority (COTPA); fare revenue; and federal maintenance reimbursement.

COST:
$1.6 million annually

RECYCLING PROGRAM

DEPARTMENT:
Solid Waste Utility

OVERVIEW:
The rerouting and recycling programs were successfully implemented during 2018 and annual recycling volumes have already increased 213 percent. An additional 7,000 residential customers were converted to urban trash service and all customers received new green recycling carts. Two self-service pilot rural recycling depots were also established to extend recycling capabilities to remaining customers residing in rural collection areas. Staff is now formulating new educational initiatives to assist customers in reducing contamination in recycling carts and ways to further improve participation.

STATUS:
Service began July 1, 2018 and is ongoing.

FUNDING SOURCE:
OCEAT rate revenues.

COST:
$9.5 million annually for the Solid Waste Line of Business which includes recycling program

HIGHLIGHTED ISSUE

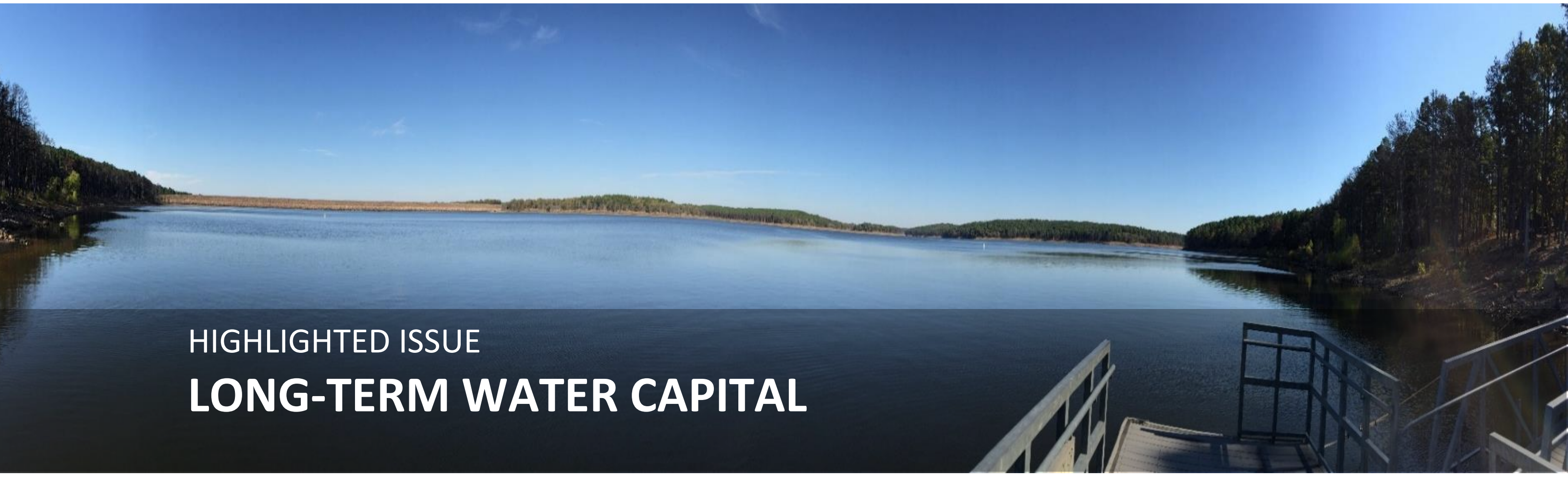
FIRST AMERICANS MUSEUM

The First Americans Museum (FAM) started in 1994 when the State of Oklahoma created the Native American Cultural and Educational Authority (NACEA) who would build and operate the FAM. The State issued $63 million in bonds for construction which was halted in 2012 when Construction funding was exhausted. In 2015, the State passed HB 2237, which projected the completion cost at $65 million and committed the state to provide $25 million in additional State bonds, identified at least $31 million in private donations through the American Indian Cultural Center Foundation, and required $9 million from the City for the remaining construction to complete the project. This legislation also required the City to take responsibility for the future operations and maintenance of the FAM, and to take ownership of the undeveloped commercial property surrounding the facility. The Chickasaw Nation stepped up to partner with the City to fulfill the State's vision for the FAM. In 2016, the City and the State entered into an agreement for the completion of the FAM, and for the City operate and maintain the facility. The City also entered into an agreement with American Indian Cultural Center Museum (AICCM) Land Development, a limited liability corporation of the Chickasaw Nation, for operating and capital support for the project and for development of the property surrounding the FAM. AICCM Land Development has agreed to provide $14 million for operations of the FAM, including significant pre-opening costs, and to provide up to $15 million for unexpected costs that exceed the construction budget. The grand opening is currently scheduled for Spring 2021.

POSSIBLE DIRECTION AND NEXT STEPS

- **Funding and Agreement for Operations and Maintenance.** After construction is completed, the City will be responsible for the operations and maintenance of the FAM. A study completed by ConsultEcon estimated the annual operating deficit to be approximately $2 million. The City has executed a pre-opening agreement with the FAM Foundation, but a post-opening agreement will need to be negotiated. The FAM Foundation has committed to raising funds to provide for future operations. The OCEDT will manage the contracts with the FAM Foundation.

- **Potential Impact on Operating Funds.** The Foundation has committed to raising funds to provide for the operation and maintenance costs of the FAM in excess of revenues generated by the facility. Any operating deficit that exceeds available funds from the FAM Foundation would be the responsibility of the City and would place pressure on the City's General Fund.



HIGHLIGHTED ISSUE

LONG-TERM WATER CAPITAL

Over the next five years, the Utilities Department will address its long-term water supply and regulatory compliance challenges through the implementation of a $1.5 billion-dollar capital program.

Water Utility – Water Supply

Securing additional water supplies to meet the Central Oklahoma's projected long-term water needs through 2060 is a strategic priority for the City and the Oklahoma City Water Utilities Trust. The Trust has begun construction of the one-hundred-mile-long pipeline from Lake Stanley Draper to Lake Atoka for transporting the City's water rights in McGee Creek Reservoir and the Kiamichi River/Sardis Reservoir to Central Oklahoma for treatment and use. The cost of this pipeline is estimated at $824 million, with $716 awarded during the next five years. The total FY2021-2025 OCWUT water capital plan is $988.8 million.

Wastewater Utility – Regulatory Compliance

The South Canadian Wastewater Treatment Plant's daily treatment capacity will be expanded from six to nine million gallons a day to meet projected growth needs. Due to findings of a Canadian River water quality study by the Oklahoma Department of Environmental Quality, the construction project will necessarily include additional treatment enhancements to meet more stringent wastewater discharge limits. The estimated cost of this project is $110 million. The FY21-25 OCWUT wastewater capital plan is $492 million.

Solid Waste Utility – Recycling Program

The Oklahoma City Environmental Assistance Trust purchases equipment for the collection of the City's portion of big blue and bulky waste collection routes and all newly constructed home and replacement blue and green carts. The five-year estimated cost is $12.5 million for collection equipment and $6.7 million for carts, for a total five-year capital plan of $19.2 million.

POSSIBLE DIRECTION AND NEXT STEPS

- Rate Adjustments. To meet the financial requirements of the growing capital and operating plans to effectively manage utility service needs, the Council approved a four-year water and wastewater rate plan beginning January 1, 2018 through 2021. Council approved a four-year solid waste plan effective October 1, 2016 through 2019, to fund ongoing services and the addition of large cart residential recycling program. Utilities staff are monitoring the financial viability of the OCWUT as its capital program is implemented and will recommend adjustments for future years as warranted at that time. Staff is now working with OCEAT's financial advisor to formulate solid waste rate recommendations for October 2020 and thereafter for consideration by Council.

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

The City Council has been supportive of improvements to the City's public transportation system due to an increased awareness of the benefits of public transportation. This is brought on by younger residents that are more inclined to use public transit than previous generations, an aging population, increasing tourism, expanding economic development opportunities, heightened air quality concerns and increasing demand for services for mobility impaired persons. The long-range plan completed several years ago found that public transportation in Oklahoma City provides significantly less service and carries fewer passengers than similar cities and is significantly underfunded. Current census data shows that Oklahoma City has the lowest percentage of commuters that use public transit of any peer cities.

To ensure the viability of the City's public transportation system in the coming years, emphasis must be placed on continuing to enhance existing services through additional transit options for residents and in maintaining a state of good repair for transit facilities and equipment.

Results are showing that recent improvements in the frequency of bus service, the introduction of night bus routes and Sunday bus service are being rapidly embraced by existing transit users and the community. Following significant frequency enhancements, ridership for the fixed route bus system increased for two consecutive years. Since the introduction of night service, nighttime ridership is currently the fastest growing EMBARK transit option. Sunday service has exceeded ridership expectations as the first year of Sunday service concludes. To develop a public transportation system that works for all residents, implementation of the Transit System Analysis conducted in 2013 should continue. Recommendations in this analysis include additional high frequency corridors, new bus routes, transit service to the Will Rogers Airport and expanded night service. EMBARK will be starting the Northwest Bus Rapid Transit (BRT) project that will provide fast, frequent, reliable and comfortable rapid transit service. The estimated operating cost for BRT is $4 million annually.

In recently approved legislation, Congress required transit systems to develop a Transit Asset Management Plan that formulates a strategic and systematic process of operating, maintaining, and improving public transportation assets throughout the life cycle of the asset. In order to adequately maintain transit equipment and facilities, regular replacement of aging buses and equipment as well as capital maintenance for transit facilities and guideways is needed. With recent success in securing competitive grants and voter approval of the public transportation GO bond proposition, immediate needs for bus replacement are addressed; however, transit facilities continue to require capital investment to maintain a state of good repair and consideration should be given to establishing a funding source for future capital maintenance.

POSSIBLE DIRECTION AND NEXT STEPS

- **Dedicated Funding for Public Transportation.** Continuing support and participation in the Regional Transit Authority of Central Oklahoma could lead to a voter approved initiative for dedicated public transportation funding for Oklahoma City and the rest of the region.

HIGHLIGHTED ISSUE

FACILITY CAPITAL MAINTENANCE COSTS

The City has a long history of public support for funding major capital improvements debt free through temporary sales taxes, such as MAPS, MAPS 3, MAPS 4 and the issuance of General Obligation Bonds. As the facilities age, capital maintenance is needed to extend the life of the facility.

Original MAPS Projects. In 1993, City voters approved a temporary one cent sales tax to fund a capital improvement program that included nine projects designed to revitalize Downtown and provide new and upgraded cultural, sports, recreation, entertainment and convention facilities. The MAPS Use Tax Fund used to fund operations and maintenance is now depleted, and a new funding source will be needed to fund capital maintenance.

MAPS 3 Projects. In 2009, City voters once again approved a temporary one cent sales tax known as MAPS 3 to fund eight more projects designed to improve the quality of life in Oklahoma City. No funds have been set aside to provide for capital maintenance once the projects are put into public use.

MAPS 4 Projects. In 2019, City voted to continue the one cent sales tax to fund 16 more projects. Many of the projects will be operated and maintained by partner entities, such as the State Fair. In addition, MAPS 4 includes an investment component to help fund operations of some of the projects, but there is a need to identify funds for maintenance for some of the projects.

General Obligation Bond and Capital Projects. The 2007 and 2017 General Obligation Bond Authorizations provided funding for several new facility improvements throughout the City. A funding source has not been identified to provide for capital maintenance on these facilities.

POSSIBLE DIRECTION AND NEXT STEPS

- **General Fund.** In March 2018 City Council adopted Budget and Financial Planning Policies that included an update to capital expenditures setting a target to budget 1%-3% of the General Fund for such expenses. In FY20, Capital maintenance and fleet replacement was budgeted at $5.75 million or 1.25%.

- **MAPS 4 Use Tax.** After funding the MAPS office and public safety capital expenses, there could be additional funds available for facility capital maintenance.

- **General Obligation Bonds.** Maximizing the use of property taxes, through General Obligation Bonds, to fund capital maintenance on facilities may be an opportunity to provide needed funding while reducing pressure on the General Fund which pays for day-to-day operations.

HIGHLIGHTED ISSUE

EMPLOYEE RECRUITMENT, CLASSIFICATION AND COMPENSATION

The National Unemployment rate fell to 3.5% in September 2019 and was the lowest jobless rate since December of 1969. Nationally the rate of unemployment to open positions is at a 18-year low, indicating more demand for workers that are currently available. While a low unemployment rate is a sign of a strong economy there are downsides to employers such as high employee turnover, the need to increase wages and benefits to compete for talent, increased training budgets, more time to fill positions, and impacts on service delivery while positions are vacant. Compounding the problem, are remnants of past budget reductions where staff sizes were reduced which is also impacting service levels and daily operations.

City Departments have experienced a particularly difficult time filling and retaining employees in skilled trades, some professional services, part-time positions, and those requiring a commercial driver's license. While most of the City's positions have increased in pay from cost of living adjustments during this time, there are presumably many positions for which compensation has not kept up with the marketplace. Approximately 15.9% of employees participating in the Oklahoma City Employee Retirement System are currently eligible to retire and we are beginning to see key positions vacated due to retirement. Loss of institutional knowledge or positions left vacant too long could have a detrimental effect on the performance and morale of the City's employees. Without a quality workforce, City departments will have a difficult time completing their core missions.

POSSIBLE DIRECTION AND NEXT STEPS

- **Conduct a New Classification and Compensation Study**. Historically, the City has conducted a classification and compensation study every 10 years; with the last one completed in 2009 by Waters Consulting Group, Inc. at a cost of approximately $200,000. A new classification and compensation study will help determine whether pay structures are appropriate or need adjustment; if the classification system is structured efficiently or if new job classifications are needed as roles have evolved, classifications need to be re-titled, or deleted because they are obsolete. It will also update descriptors of work performed, update performance evaluations and ensure compliance with legal requirements.

- **On-the-Job Training.** Some skill sets are unique to municipal government, and therefore qualified candidates are hard to recruit. Underfilling positions with trainee or provisional status employees while they learn from on-the-job training and obtain required certifications is currently limited to a select group of job classifications, but this approach could be expanded to other job classification families where there are natural career progressions.

- **Partner with Local Educational Institutions.** Partnerships could be further developed with local educational institutions to develop customized training to meet local government needs.

- **Contract for Specialized Skill Sets.** By 2020, it is estimated that 40% of America's workforce could be contract, temporary or self-employed workers, as workers enjoy a greater sense of freedom and control over their work hours and income. For departments with a need for specialized skill sets this could be an opportunity to engage someone for specific needs and could cost less than a budgeted full-time position.

HIGHLIGHTED ISSUE

OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

The City and its related trusts have several potential obligations that extend into the future. One of the largest of these future obligations is the practice of funding retiree health benefits, referred to as Other Post-Employment Benefits (OPEB), funded through the Other Post-Employment Benefits Trust (OPEBT). Retiree health insurance is similar to a pension plan, in that, the City funds future benefits after retirement for employees. However, unlike the pension plan, employees have not been required to contribute to the system during their employment, nor has the City fully funded the actuarially determined annual required contribution to achieve full-funding of the liability over time. The result is that the plan has a total unfunded liability in excess of $521 million. Unfunded liabilities can negatively affect bond ratings and investor opinions about the City, which could ultimately lead to higher borrowing cost.

To help address the large OPEB liability, City Council adopted two changes that went into effect on January 1, 2017 that will reduce the liability $90 million in the next 10 years and will eventually eliminate the post-employment benefit obligation in its entirety.

- *Increased Eligibility Requirements for Early Retirees.* For those employees who take early retirement, subsidized retiree health insurance is only available to those employees who have worked at least 15 years with the City and have reached age 60 which is an increase from previous requirement of 5 years of service and age 55. The subsidy is still available to individuals hired before December 31, 2016 and who retire with a normal pension benefit (Employee Retirement System – 25 years of service, regardless of age; Police and Fire Pension Systems – 20 years of service, regardless of age).

- *End Subsidized Retiree Health Insurance for New Employees.* City support for retiree health insurance for new employees ends for employees hired after January 1, 2017. Those employees will not receive subsidized health insurance when they retire. Health insurance would still be available to these employees in retirement, but they would have to pay the full premium.

POSSIBLE DIRECTION AND NEXT STEPS

- **Explore Cost Reduction Changes.** Balancing the City’s post-employment benefit liability with the desire to provide retirees and their dependents with affordable healthcare benefits is a challenge. Staff is exploring ways to lessen the impact to plan participants while reducing costs for the City.

DEPARTMENT LIST OF FORECAST ISSUES

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DEPARTMENT LIST OF FORECAST ISSUES

Department	Issue	Facility	Fleet	Personnel	Services	Materials	Page No.
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AIRPORTS

Construction of Additional Public Parking

Airport staff continues to track the percentage of public garage parking that exceeds 85% of capacity. In FY 2018 and 2019, parking exceeded 85% capacity by 75% and 86% respectively. Garage parking between 80% to 84% of capacity in FY 2018 and 2019 was 10.41% and 8.22%, respectively. More passengers seem to prefer garage parking to the surface lots given Oklahoma City's propensity for severe weather and the convenient access to the tunnel walkway to enter the terminal. In the last three years parking transactions in all facilities have dropped 2% even though passenger enplanements have increased year-over-year. Much of the decline in parking transactions can be attributed to the growth of Transportation Network Companies (TNCs) such as Uber and Lyft in the metro area. While covered parking is a preference for many customers, constructing a third parking garage with dedicated vehicle ramps is not financially feasible given the flat growth in parking transactions. A more prudent alternative is the construction of a covered surface parking lot with dedicated shuttle service. Continued monitoring of parking and transportation trends over the next five years will continue to shape decisions regarding public parking.

Maintain and Improve Existing Building Systems and Aging Infrastructure

Some of the Airports building systems and infrastructure at Will Rogers World Airport, Wiley Post Airport and Clarence E. Page Airport are original and date back to the 1960s. The continued development at the City's airports is beginning to strain some infrastructure such as storm drainage systems, building systems, and various pavements. Aging building systems and facilities are continually evaluated to determine required maintenance, replacement or disposal. A priority project is underway to reconstruct Terminal Drive from SW 54th Street south to SW 67th Street. Subsequent phases will reconstruct Terminal Drive outbound and the intersection at Amelia Earhart and Terminal Drive. Another project underway is the upgrade of the elevator station in the two-story parking garage which serves premium and hourly parkers. The escalators are being removed and replaced with two elevators, bringing the total elevators in the station to four. The two longest moving sidewalks in the pedestrian tunnel are being completely replaced. These enhancements will improve passenger circulation between the terminal and the garages. The passenger drop-off bridge deck on the upper level terminal will undergo a significant rehabilitation project over the next two years. Coinciding with this project will be improvements to the lower level passenger pickup area that will improve navigation for vehicles and pedestrians and provide significant aesthetic upgrades.

Terminal Expansion

Air service enhancements such as new non-stop destinations and increasing flight frequency to some cities have resulted in an increase in boarding passengers at Will Rogers World Airport by 3.7% on average for the last five years, with increases of 10.2% and 6.4% in FY 2018 and 2019, respectively. This steady passenger growth along with facility constraints prompted Airports to start the construction of the terminal expansion project. The project adds an additional 133,022 square feet of new terminal space and renovates 43,473 square feet of existing terminal space. The main components of the project include the addition of a four-gate concourse with increased hold room seating and new passenger boarding bridges that bring the number of departure gates to 21, a mezzanine level circulation area, a centralized passenger security screening checkpoint, a large hold room for international or diverted flights, administrative office space, additional concession space (food and retail), technology improvements, and an area for a future customs inspections facility. Public artwork is being procured and will be integrated into the building architecture. The project also renovates existing space to expand greeter lobbies and public circulation areas. New furniture and fixtures are included in the new and remodeled areas. The project will cost approximately $92.1 million including contingencies and is funded with the Thirty Third Series Bonds proceeds and Trust Revenues which includes Passenger Facility Charges.

AUDITOR'S OFFICE

Contracted Information Systems Audits

Information systems are critical to citywide operations such as purchasing, human resources, payroll, etc., as well as specific areas of operation such as public safety, utility billing, and courts. Areas of exposure like network security, availability (downtime), and data validity may not be addressed without the assistance of an information systems audit expert.

Timely Response to Risk Assessments

An addition of up to three Audit Manager or Senior Auditor positions are needed to provide timely response to programs and operations identified during the triennial risk assessments. Issues of internal control weaknesses, areas of exposure to loss, and/or opportunities for improvement may not be addressed timely due to the lack of audit personnel.

CITY CLERK'S OFFICE

Operation of New Archives and Records Facility

The City Clerk's Office project, City Archives and Records Facility, was approved by voters as part of Proposition 9 of the 2017 general obligation bond package. A central facility for City records creates a need for funding to staff, equip and operate the facility. The central facility must have the capacity to securely store records on a short and long-term basis. The project proposal defines this as 10,000 square feet of storage and office space and this requires data storage and computers, shelving and archival boxes, office furniture, and additional Records Management staff. The project is scheduled to begin construction July 2021 and will be completed in September 2022.

DEVELOPMENT SERVICES

Medical Marijuana Certificate of Compliance Processing

Effective August 30, 2019, all medical marijuana businesses within Oklahoma City were required to obtain a Certificate of Compliance with the City prior to the renewal or issuance of the medical marijuana business license from the State. There are approximately 1,200 medical marijuana business license holders addressed in the Oklahoma City limits according to the Oklahoma Medical Marijuana Authority. The permit process, application, and submittal requirements for medical marijuana-related applications are reviewed the same as all other building permit applications. Inspections for marijuana-related permits issued through Plan Review are also the same as all other businesses. Because of federal banking laws these businesses deal in cash only, preventing them from doing business on-line or over the phone. Since August 30, 2019, staff has been challenged to keep up with the additional workload from medical marijuana. Without additional staffing in Plan Review, Permits and Licensing, and Construction Inspections, the workload generated by Medical Marijuana Certificates of Compliance will continue to have a negative impact on the level of customer service regarding plan review, inspection performance, and permit and license issuance.

Increasing Development Center Liaison Services

In November 2018, Development Services added a Development Center Liaison position. Since that time, the Liaison has engaged in resolving over 500 development issues while managing over 1,000 contacts and attending over 300 meetings. The position has helped resolve issues for 14 internal City departments and worked with 16 external agencies, including the Alliance for Economic Development, Greater Oklahoma City Chamber of Commerce, Central Oklahoma Home Builders Association, Construction Industries Board, Oklahoma Department of Human Services, Oklahoma Department of Environmental Quality, the Urban Land Institute and others. Because of the demand, the Liaison has been functioning in a reactive as opposed to proactive mode. With an additional Liaison position, the City can expand its services to more individuals, businesses and agencies facing complex development problems. This would include reaching out in a proactive manner to individuals and groups navigating the City's development process.

Achieving a 90% Live Release Rate

new

In FY 2009, Animal Welfare in conjunction with the American Society for the Prevention of Cruelty to Animals and Central Oklahoma Humane Society, set an animal shelter live release target of 75%. This was a challenging goal given the FY 2008 live release rate of 35%. Through dedication and the implementation of multiple strategies, the live release rate exceeded the target in FY 2018 with a 79% rate and again in 2019 with 84%. Animal Welfare has adjusted its goal to obtain a 90% live release rate, which is now considered the industry standard for animal shelters that are maximizing their life saving efforts. In order to obtain this goal, Animal Welfare needs better facilities, which is included in the MAPS 4 initiative. In addition, Animal Welfare needs an additional Veterinarian, Veterinarian Assistant, a Pet Placement Coordinator and Kennel Workers.

FINANCE

First Americans Museum *(Highlighted Issue – Page 92 for additional information)*

Facility Capital Maintenance Costs *(Highlighted Issue – See page 97 for additional information)*

Retiree Health Benefits - OPEB *(See page 99 for additional information)*

FIRE

Facility Capital Maintenance

The Oklahoma City Fire Department (OKCFD) has 43 facilities of various ages. The older facilities often need repairs and some need renovating. In 2015, MA+ Architecture provided a comprehensive facilities assessment with the goal to "identify conditions and recommendations, that when they are implemented, will improve the health, safety and welfare of the firefighters living and working at the stations." This assessment identified a total cost estimate of over $23 million to repair all identified issues and essentially bring each station up to modern standards. Of this total cost, the higher priority items were estimated to be over $8 million with $3 million of that already being spent on priority repairs such as HVAC and roof replacements. Three fire stations identified in the study as needing to be rebuilt were included in the September 2017 General Obligation (GO) Bond. Although efforts have been made to address these issues with existing budget, we will need additional funds in order to complete many of the priority and urgent repairs to continue to ensure firefighters can operate out of the safest facilities possible.

Minimum Staffing Levels

The Fire Department currently has 888 Operations-Suppression personnel that staff the Department's 38 engine companies. Of these companies, 32 are Advanced Life Support (ALS) and six are Basic Life Support (BLS); 13 are ladder companies; there is one medium rescue and one hazardous materials company; there are 16 brush pumpers, six heavy tankers, and one air supply unit; and six Battalion Chiefs, two Customer Service Liaisons (CSLs) and one Shift Commander. The Suppression Division is broken down into three different shifts that work a 24-hour, modified Kelly work schedule, a scheduling system common among fire departments. The work schedule requires that each shift work 24 hours on and 24 hours off, repeated again, followed by, 24 hours on and 96 hours off. This equates to a 54-hour work week or 216 hours in a 27-day cycle. Each shift is staffed with 296 personnel with a daily minimum staffing based on the Collective Bargaining Agreement (CBA) of 231 personnel. OKCFD does have a minimum staffing model based on the CBA which requires four personnel on all ALS engine companies and three on BLS engine companies; three on ladder companies; four on the medium rescue and hazardous materials companies; one on the brush pumpers, tankers, air unit and CSL unit; and 2 on each Battalion Chief vehicle. This overstaffing of personnel is designed to cover days off and long-term leave such as sick leave, on the job injuries and administrative leave. This overstaffing is also designed to minimize overtime due to a daily requirement of 65 guaranteed day off slots based on an arbitrator ruling. This total daily staffing does not take into consideration any long-term leave due to injury, unexpected Family Medical Leave Act (FMLA) leave used, sick leave or vacancies. With personnel costs taking up almost 90% of the annual budget, staffing costs will continue to be the number one budget challenge for the Department.

Maintenance/Logistics Building

Currently, the Fire Logistics – Fire Maintenance work section operates out of the Fire Department Maintenance Shop, located at 600 North Portland Avenue. This facility was constructed in the early 1970s and needs to be updated to modern standards. The modern fire apparatus is generally larger and requires more space when undergoing repairs or scheduled maintenance, thus the need for additional space. In addition, Fire Maintenance has assumed the role of logistics for the Department. This includes handling the ordering and distribution of firefighting tools, equipment and supplies, EMS equipment, firefighter personal protective equipment (PPE) distribution and cleaning. All of this increases the strain on the existing facility. Finally, a joint Fire-Police Training Center was approved by voters in the September 2017 GO Bond vote with bonds for this project expected to be sold in FY 2020. When that training center is constructed and the Police and Fire Departments vacate the training center adjacent to the current maintenance facility, Oklahoma State University-OKC has indicated that they wish to take possession of the property, including the current location of the Fire Maintenance Center. However, the City does have a long-term lease on the property and would not be obligated to do so until a suitable replacement could be found or built. With all of these issues in mind, it is essential we begin to focus on how to meet the need for a modern Fire Logistics – Fire Maintenance Center.

GENERAL SERVICES

Americans with Disabilities Act (ADA) Compliance

One of the greatest barriers to employment for persons with disabilities is lack of accessible transportation. The Americans with Disabilities Act requires all transit stops to be on an accessible pathway. Many of Embark' s bus stops are not connected to sidewalks. In addition, each bus stop is required to have a boarding and lighting area and is to be accessible by sidewalk and curb ramp from the nearest cross street in both directions. Gaps in the sidewalk system exist on arterial streets making access to places of public accommodation difficult for many residents. Many neighborhoods are not connected by sidewalk to arterial street sidewalks, which further limits resident access to goods and services and places of public accommodation. The current lack in inter-connectivity is being addressed through implementation of the bikewalkokc Plan. However, funding is not available to extend to new sidewalks to and within all neighborhoods.

Facility Asset Management

The industry standard for square footage maintained per full-time equivalent (FTE) is 55,000 square feet. The Building Management Division (BMD) currently has 33 budgeted full-time positions, excluding administration. Due to budget-related staff reductions, coupled with an increase in the number of facilities and facility square footage, the BMD is presently maintaining 88,940 square feet per FTE. New facilities include the Municipal Courts Building, Streets Maintenance Division Crew Room, Street Maintenance Division Warehouse, General Services Department Building, Traffic Operations Sign Shop and Fire Stations #21, #23, and #29. The total square footage of these facilities is 160,400. Some of these facilities are new locations and some are new buildings replacing old existing buildings. BMD will still be responsible for a level of maintenance on those buildings that have been replaced until they are sold or demolished. The BMD could potentially lose 40% of its current staff through retirements during the next 5-year period and this will adversely affect continuity of operations.

Industry research shows that preventive maintenance is 12% to 18% more expensive than predictive maintenance. General Services is working to transition from preventive maintenance to more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Additional licensed tradespeople are needed to accomplish predictive maintenance and eventually eliminate deferred maintenance in the city facilities currently maintained and the new facilities already scheduled for construction. The greatest need currently exists in the electrical and skilled trades sections.

Fleet Services

The current general fleet includes 1,898 vehicles and other equipment. Each piece of equipment is assigned a number of Vehicle Equivalent Units or VE's based on the level of maintenance required compared to a typical passenger sedan. Thus, a heavy truck, which has greater maintenance and repair needs than a basic passenger sedan, has a greater VE factor than a passenger sedan. The City's general fleet currently has 4,225 VEs. To service this equipment, the Department has 17 Mechanic/Master Mechanic positions. This is lower than industry standards and results in longer wait times for equipment to be returned to service when it is out for maintenance. Adding additional mechanics would allow the Department to provide higher levels of service and improve the up time for City fleet vehicles.

INFORMATION TECHNOLOGY

Technical Staff Recruitment and Retention

Cyber security is one of the highest priorities for the IT Department to protect City systems and data. As technology usage expands in the City and data moves to on-line cloud storage, the operational complexity to maintain security increases. Additionally, cyber threats continue to increase and become more and more sophisticated. The availability of highly skilled individuals is very low in the private sector to the extent that City staff have been recruited and left the City. It is a difficult balance to provide required cyber-security training to staff and retain the individuals long-term. due to competition from private agencies. I.T. the next five-years could see significant struggles with hiring and retaining knowledgeable and experienced cybersecurity staff. We have seen an increase in the challenge of hiring qualified IT staff. Qualified individuals are routinely demanding pay rates beginning at mid-step of the available salary range. To address this issue, IT has worked with Personnel to create specific job titles and ranges for technology security positions to be included in the next compensation study.

MAPS OFFICE

Construction Market Saturation
With the passage of MAPS4 there will be many construction projects over the next several years. Due to the limited supply of local contractors, the MAPS department must work to ensure we do not saturate local construction markets by placing too much work out to bid at any given time. For instance, adding more trails and sidewalks projects on top of the general obligation bond and Better Streets Safer City work could artificially drive up prices. Likewise, bidding several buildings in short order could do the same to the building sector. The order of the MAPS 4 projects could also affect these construction markets. Effective communication to staff and those involved in the citizen oversight function is crucial so that they are aware of the potential issue when considering requests from involved stakeholders while developing the MAPS 4 project implementation plan.

Accelerated Construction Design
Public input has proven to be an important aspect of MAPS projects and the desire to have a short design phase on MAPS 4 projects could affect the quality of design and significantly reduce the public input on the projects. Short duration of design could also affect the amount of fund interest collected in the program. This has proven to be a very valuable asset in previous MAPS programs, increasing the flexibility to respond to project related requests which may be over original budget. Interest and excess collections could bridge us through a short recession.
It is anticipated that the unique nature of some MAPS 4 projects could include alternative materials and other unusual design features. A shortened design phase would reduce the time allowed for review of these alternative materials and unique design elements. Insufficient review time could drive up prices beyond the estimates approved in the MAPS 4 ballot.

MUNICIPAL COUNSELOR'S OFFICE

Increased Tort Claims and Expungement Cases
Tort Claims have increased almost 25% over the past decade to an average of just under two new claims per day. Expungement cases have nearly doubled during that time to an average of over one new case per day. Due to statutory amendments, there may be an even greater growth increase in expungement cases. Continued growth in these areas may require additional staff including an attorney, a legal secretary and part-time law student interns.

Open Records Requests
Over the recent years, there has been an increase in the number of open records requests and electronic discovery. In the past three years, open records requests have increased by 32% from 4196 in 2017 to 6150 in the past 12 months. Hundreds of these requests must be reviewed by the Municipal Counselor's Office. Electronic discovery is also trending upwards and even a single request can involve thousands of documents. As more and more departments move towards paperless environments, these requests have become more labor intensive based on the steps involved in retrieving and reviewing the requested information. The process requires gathering and reviewing all documents (including emails) maintained in the normal course of business from any given department, which must then be searched for the relevant requested information. This step requires that IT and Legal work together to formulate search queries that are used to perform computer searches to find the

requested information. This often results in thousands of pages of information being extracted in the initial search. The Municipal Counselor's Office must review the gathered information and separate documents according to relevancy. Those documents must be checked for any confidential information and redacted accordingly. Continued growth in these areas may require additional staff including an attorney and paralegal.

MUNICIPAL COURT

Possible relocation of the County Jail

A solution for the future of the Oklahoma County Jail is escalating in priority and continues to be a concern for Municipal Court. The Oklahoma County Criminal Justice Advisory Committee has been tasked with identifying solutions to relocate the jail or identify renovation suggestions. City prisoners are housed in the Oklahoma County Jail and are transported daily to and from Municipal Court by means of walking across the street in the custody of the Oklahoma City Police Department Court Detail Unit. If a new jail is built on a site away from Municipal Court, the Police Court Detail Unit will be required to transport prisoners from the County Jail to Municipal Court using vehicles. If the jail is relocated, audio-video equipment will be needed to conduct court hearings at the new jail location via secure video link for cases that do not require a personal appearance in the courtroom. This will require additional funding in an amount dictated by the distance between the County Jail and the Municipal Court. Otherwise, the City may need to consider the costs associated with the purchase of sufficiently sized vehicles that are appropriate for prisoner transport, the potential increase in staff needed to escort prisoners, and the increase in staff time associated with travel and/or frequency of trips.

Homeless Court

Municipal Court is working with the Homeless Task Force in conjunction with the Homeless Alliance to assist defendants that are homeless. At the request of the Council Judiciary Committee, Homeless Court hearings will be held quarterly beginning January 2020 at Homeless Alliance to eliminate barriers to attending court. This specialty court will incur additional costs associated with staffing, hardware, software and maintenance. In addition to traditional court staff positions, the program's outcomes can be improved by the addition of a case manager position to serve as a liaison for the defendant with the court and treatment services.

Advancements in Technology

Municipal Court would like to offer an automated notification service to remind court patrons of upcoming court dates. The estimated cost to send an automated text notification is $0.20 per message. The estimated initial annual expense is between $40,000 and $60,000. As use of this type of technology expands in Municipal Court, the expense will increase. There will be additional hardware, software and maintenance expenses associated.

PARKS AND RECREATION

Infrastructure

City parks, open spaces, trails and attractions improve our physical and psychological health, strengthen our communities, and make our City and neighborhoods more attractive places to live and work. The Parks and Recreation Department is committed to meeting the residents' desire to have well-maintained parks and to provide quality opportunities to promote healthy living. Convenient, attractive and relevant options for residents can only be provided if our parks, open spaces, cultural and recreational facilities are well maintained and located in centralized areas of the City.

Fifteen of the City’s recreation centers, aquatic facilities, gardens, senior centers, and Bricktown Canal are in immediate need of improvements. Most have limited programmable space and usability that meet current trends and needs. Funding is needed for renovation and upgrades to strategically target recreations centers and facilities as follows:

1. Modernized facilities will be more inviting, comfortable and enticing for residents to use for recreation programs and purposes. Upgrades to existing facilities could include improved lighting, the addition of windows, air conditioning, improved entry ways, security monitoring, energy efficiency improvements and better accessibility for all populations.
2. Installing technology and computer rooms in existing community recreation facilities reduces barriers to technology and increases access for residents. Residents can utilize the community center computer rooms to pay utility bills, check personal email accounts, apply for jobs, register for parks and recreation programs, and stay connected to their community.
3. Will Rogers Gardens is over 80 years old and will need improvements to circulation, accessibility, security, lighting, and renovations to historic park elements and buildings so all residents can safely enjoy programs and leisure activities provided in this unique park.
4. Improved senior facilities include better accessibility, lighting, safety and security thereby providing a greater sense of safety for an older population of residents; enhanced facilities create a more welcoming environment where seniors will want to meet their friends and be engaged in their community.
5. Existing aquatic facilities are aged and need to be completely replaced or modernized. All spray grounds need to be renovated with water circulation systems to help save the City over $300,000 annually in water costs. Each community pool needs to be resurfaced and have new concrete decking surrounding the pools installed, in addition to updated water filtration and circulation systems providing better energy efficiency and water treatment and consumption. The Family Aquatic Centers are outdated and need significant renovations and upgrades to be safe and attractive places for families to want to play and recreate.

To assist with bridging the gap between smaller recreational facilities to larger facilities, several existing facilities will be replaced with regional health/wellness/recreation centers that include indoor aquatic facilities. The large regional centers will complement the MAPS 3 Senior Health and Wellness Centers and will allow the Parks and Recreation Department to substantially improve the services offered to all ages of the City’s population. From acquainting children with healthy eating practices and exercise to millennials needing an active healthy lifestyle to a growing population of active senior adults who also need additional locations to gather, these centers will promote quality recreational and cultural opportunities and healthy living.

The passage of MAPS 4 will help fund some of the needed infrastructure updates to our existing assets, which are all over 20 years old, and our recreation centers which were built in the 1960’s or before. However, MAPS 4 funds for Parks are limited to only community and neighborhood parks and programming enhancements. Many of our infrastructure needs are in our regional, special use, or nature parks and MAPS 4 funds cannot be used in those parks.

Operating and Capital Maintenance Costs

As Oklahoma City continues to add new and exciting elements of recreational opportunities for residents, ongoing maintenance dollars for those new elements have not been added proportionately to the operating budget. Capital projects such as MAPS, Project 180, GO Bond programs and the Oklahoma City Boulevard have resulted in new operational and capital repair funding needs not currently budgeted or planned for as projects are contemplated and completed.

New elements without appropriate budget allocations exacerbate financial pressures to continually provide outstanding services to Oklahoma City residents. In the 2019 Resident Survey, residents established their opportunities for improvement in the Parks Department as:

1. Maintenance of City parks
2. Quality of City parks near neighborhoods
3. Walking and biking trails in and throughout Oklahoma City
4. Availability of information about parks & recreation programs

In order to continue to provide top-tier services to residents, we are going to have to increase our operating budget in coordination with the completion of capital projects.

Staff Recruitment and Training

new

Educated and talented staff is essential for providing outstanding programs. The department is currently using a mixture of contracted instructors, as well as part-time and/or full-time staff members for many programs and facility oversight. While this is a common practice in public program delivery, we need to develop a long-term plan for sustainable staffing requirements. Most cities utilizing the traditional neighborhood center/facilities model employ two full-time staff at each center to ensure standard operating procedures as well as a full program menu at each site. As program offerings continue to increase on an annual basis, a major limitation will be maintaining levels of service with current staffing levels and proficiencies.

The core park maintenance services are substantially provided by front line, entry level full-time, part-time and seasonal staff where there is a need to improve the quality of recruits and efficiencies to guarantee the future success and sustainability of the park system. A long-term staffing plan will be needed as well as a plan for training and education to ensure staff members are skilled and exhibit the core competencies expected of them as recreation, health and wellness professionals.

PERSONNEL

Personnel Service Level

new

According to the “HR Benchmarks Report” published by Bloomberg Law in June 2018, “HR departments have a median of 1.5 employees per 100 in the workforce.” This equates to 73 positions for a workforce of 4869 positions. The prior benchmark hovered for decades at 1 to 100 employees or 49 positions for the City. The Personnel Department is currently authorized 30 positions to cover a highly complex HR environment with multiple unions, pay plans, benefit plans, and operations covering hundreds of job classifications. The result of underfunding has led departments to develop their own HR resources or fund a dedicated HR analyst in the Personnel Department. This desperate response to the need has created inconsistency with application of personnel policies, duplication or siloed records and processes, and fractured efforts towards ensuring that all Human Resources programs and initiatives are effective, efficient and aligned with the City’s overall objectives.

With its own staff vacancies and difficulties associated with filling those vacancies, the Personnel Operations Division has struggled to keep up with increasing demands to fill current vacancies, position additions, restoration of positions from prior budget reductions, and department reorganizations. The percentage of final candidate referrals sent to hiring supervisors within 45 calendar days of the close of the vacancy announcement (LFR Measure) reached a four-year high of 85.76% at the end of Fiscal Year 18-19 but has since declined to 61.01% at the end of the first quarter of the new fiscal year due to increased demands. Further, although some progress has been made, job descriptions, selection processes, and performance evaluations—all of which potentially impact the City’s ability to hire a skilled workforce—have not been routinely updated. Succession planning has not been achievable due to minimal staffing levels, and most recently has resulted in the Department relying on retired employees working part-time to perform critical classification, compensation, and employment functions until positions can be filled.

Proactive training and career development initiatives are nearly non-existent due to elimination of the Personnel Department’s Training Division during a prior budget reduction. External professional development opportunities for the Personnel Department’s staff to stay current with the human resources profession (e.g., trends, best practice, legal compliance, etc.) is nearly non-existent as well due to underfunding.

Based on priority, employee and labor relations efforts are nearly 100% reactive in nature leaving the Personnel Department with a significantly diminished ability and capacity to provide ongoing proactive coaching and mentoring to management. Labor investigations routinely take over 120 days to complete, which potentially exposes the City to some risks as related to compliance with certain federal and state employment laws.

Occupational Health Clinic

The City's Occupational Health Clinic (OHC) performs medical evaluations of applicants for new employment and incumbent employees. Services provided at the OHC are directly related to an applicant’s/employee’s job. The City has leased space to house the OHC from St. Anthony Hospital for over 30 years. Housing the clinic in a City-owned facility would not only save the City rental costs each year but would enable the City to customize clinic space to allow the provision of additional services to departments and other municipalities. It would also allow for space of maintaining medical records 30 years beyond retirement of all City employees, as we are running out of storage space rapidly. Alternatively, electronic medical records conversion could be accomplished for $30,000 year 1 with $20,000 each subsequent year.

The City’s Occupational Health Clinic also must maintain properly working medical and office equipment in order to function. It is anticipated that over the next 5 years numerous pieces of equipment will need to be replaced. The expected cost exceeds $32,500 for audiometric, stress test, vision, and other miscellaneous equipment.

Classification and Compensation Study

Periodic study of the City’s classification and compensation systems is necessary to ensure the City can effectively recruit and retain qualified employees by maintaining externally competitive benefits and pay practices and internal pay equity. The City’s practice has been to conduct a study every ten years. The last study of the City’s classification and compensation systems was completed in FY 2010 by Waters Consulting Group, Inc. at a cost of $206,750. The study included recommendations regarding proposed modifications to the existing classification and compensation structure, EEO-4 job categories, job evaluation methodology, Fair Labor Standards Act designations, etc. Once completed, funding will be needed to implement approved recommendations resulting from the study.

Retiree Health Benefits - OPEB *(See page 99 for additional information)*

Employee Recruitment, Classification and Compensation *(See page 98 for additional information)*

PLANNING

Plan Development and Implementation

The citywide Comprehensive Plan (planokc) was adopted by Planning Commission and City Council in 2015 after an extensive planning effort that lasted several years and involved tens of thousands of people in the community. The plan establishes goals for guiding sustainable and healthy growth of our community and economy while protecting and enhancing our residents' quality of life. The plan specifies multiple actions, strategies and initiatives aimed to further develop and grow our economy and tax base; fully utilize existing properties and infrastructure; maximize our disaster response capacity; advance environmental sustainability; improve connectivity and compatibility of new development; and prevent deterioration of commercial districts.

Planokc's goals are aligned with all seven City Council Priorities: 1) promoting safe, secure and thriving neighborhoods; 2) developing a transportation system that works for all residents; 3) maintaining strong financial management; 4) enhancing recreational opportunities and community wellness; 5) encouraging a robust local economy; 6) upholding high standards for all City services; and 7) pursuing social and criminal justice initiatives. The Planning Department will work with City Departments, partners, and the community to implement planokc over time. This will require additional funding and resources, which will be requested over the next few years to support work on the following:

Major Update to the City's Development Codes & Subdivision Regulations

One of planokc's highest priority recommendations that will have the greatest impact in addressing significant issues and needs is a major update of the City's development-related codes, subdivision regulations and development review process. The process of crafting the necessary code revisions in a manner that is accepted by all interests is a large, complex, and specialized process that requires significant stakeholder engagement and consultant services. The Planning Department has and will dedicate significant staff resources to this effort, but anticipates the need to add an Assistant or Associate Planner, increase the department's budget for training, and add additional funds to the consultant contract over the next three years through annual allocations of $250,000.

Updates to planokc

The Planning Department is charged with keeping planokc current in order to maintain the effectiveness and applicability of the plan. This involves updating studies done for planokc, such as the Housing and Retail Studies, so that staff can re-evaluate the effectiveness of the plan's land use typology and other policies as the city grows. In addition, an effective long-term planning approach involves the creation of more detailed area plans used for identifying needed infrastructure, zoning changes, and other localized policy and program changes. Such plans have been highly useful in identifying and prioritizing need; however, more funds are needed to cover the many areas of the city in need of these plans, which will be adopted as amendments to planokc. Grant funds were recently obtained for a Housing Study update and for an affordable housing strategy; however, it is unlikely grants can supply all funding for future consulting needs.

Commercial District Revitalization Program

The Planning Department's Commercial District Revitalization Program (CDRP) focuses on revitalizing corridors and commercial areas by coordinating infrastructure and community development investment. The CDRP has evolved and matured over the last decade into a valuable City resource that is producing tangible results in the community. As of FY 2020, the CDRP works with 12-15 districts and entities each year and continues to receive increased demands from the community for services, inclusive of organizational capacity funding and technical assistance. The number of districts the program supports has more than doubled since the program began with six districts in 2009; however, the budget for district funding has remained at $176,000 since FY 2013. For several years prior to FY 2017, districts requested funds that exceeded up to 30% of their annual budgeted amounts, which were supplemented through contingency funds. An increase in annual funding of $125,000 for each of the next three years would allow the program to adequately support existing districts through self-sufficiency and respond to demands for supporting new and emerging districts.

Housing and Community Development

Since 2008, federal formula grant funding allocated to the City through the Department of Housing and Urban Development (HUD) has continued to decline and was a target for elimination on the federal level in 2018 and 2019. Funding through the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME) has been reduced about 15% and 29%, respectively since 2009. This funding supports numerous community development and neighborhood revitalization projects including housing rehabilitation, down payment assistance, affordable housing, infrastructure, and homelessness programs.

The decline in federal funding has a tangible impact on the Planning Department's ability to meet and sustain a growing demand for neighborhood revitalization services. CDBG and HOME funding are the primary investment tools the City uses for revitalization activities that support the Council Priority of promoting thriving neighborhoods, including the Strong Neighborhoods Initiative. Overall reduction in federal funding is expected to continue, leaving the Planning Department with an upcoming shortage of funds to cover personnel expenses. Assuming continued funding at current rates, projections show a progressive shortfall in administrative funding for CDBG, HOME, Emergency Solutions Grant (ESG), and the Continuum of Care (CoC) increasing to (-$519,427) in FY 2023-24.

For CDBG in FY 2020-21, we project final balances to be (-$78,519), increasing progressively to a shortfall of (-$192,980) in FY 2023-24. Some of this can be offset by staff charging program delivery to specific projects, but this will decrease the amount of dollars available for project implementation.

Housing Rehabilitation

The Planning Department has contracted with the Oklahoma City Housing Authority (OCHA) for City staff to provide housing quality inspections on some of their projects, with charges to be reimbursed by OCHA. OCHA expects a significant increase in workload over the next few years. Additionally, the Department envisions additional demand on housing rehabilitation staff as our inspection and compliance role increases for new projects funded under the City's new GOLT-Affordable Housing program. Due to these increased program activities, the need for an additional housing rehabilitation inspector position is envisioned in two to three years.

Homelessness Program

The City established a Social Services Grant (SSG) program in FY 2004 with an annual general fund allocation of $121,000 for grant awards to help the neediest in our community. Annual grants are awarded to 15 service providers to aid a variety of programs including: homeless prevention initiatives; case management services for veterans, youth and the chronically homeless; housing location services for persons with AIDS; and assistance to healthcare providers who treat the homeless. The annual SSG budget has not changed since its origination in 2004, despite a significant increase in population, growing needs, and inflation.

Funding projections for the homelessness programs are of particular concern, due in part to the administrative costs allowed by the grants being insufficient to support staff-intensive work. The ESG program will experience progressively increasing shortfalls in FY 2020-21 (-$40,686) to (-$135,856) in FY 2023-24. The CoC program will also experience increasing shortfalls from (-$17,833) in FY 2020-21 to (-$95,453) in FY 2023-24. Salaries for persons working the homeless programs cannot be paid for by any other grant funds and there is no option to charge additional staff time to these grants. These are important programs that serve persons who are homeless or at risk of becoming homeless. General funds are needed to supplement staff salaries in these areas.

POLICE

Police Support Personnel

new

In 2018, 129 additional sworn positions were authorized to be filled in the Oklahoma City Police Department. These additional sworn positions will increase the need for additional support personnel. Additional positions will be needed in Dispatch, Finance, Emergency Management, and Investigations. Estimated cost is $500,000.

Fleet Additions

new

Due to existing vehicle needs, staffing of previously unfilled positions and the increase of 129 authorized officers in 2018, additional vehicles will be needed in the fleet. Using current ratios for Patrol Pool vehicles and Investigation vehicles, additional vehicles will be necessary over the next five years with an estimated cost of over $5 million.

PUBLIC INFORMATION AND MARKETING

Action Center Technology

new

We have been asked to explore the feasibility of replacing the City's Action Line, 297-2535, with 311. 311 is a non-emergency phone number that people can call to get information about services, make complaints or report problems like potholes. It functions just like the Action Line but is easy to remember.

311 is used by a majority of large cities across the country, including many of our peer cities. We currently use two other short phone numbers for both emergency and mental health services – 911 and 211. Cost to implement the phone number is anticipated to be around $50,000, with a $10,000 per year annual fee.

Along with acquisition of the new phone number we need to purchase and implement a customer request management software program that will help us better automate and streamline resident service delivery. Modern 311 and customer request management (CRM) tools have increased the capabilities of the traditional 311 phone number, creating fully integrated internal and external communication and request maintenance tracking tools.

The most advanced CRM solutions integrate resident requests from all channels and deposit them into a single documentation and response management hub. From there, we can convert relevant messages into trackable service requests for Public Works and other departments and can respond to residents via their original channel (text, tweet, phone, live chat and social), using a single interface.

The transition to 311 will help us continue to provide a high level of customer service by making it easier for people to connect with the City. However, this will also increase the number of requests and our residents' expectations for the level of service we provide. Because of this, we would like to expand the hours in the Action Center. To do this, an increase is Action Center positions would also be needed.

City Website Design and Management

When it comes to technology, especially tech that is the digital doormat for an organization, the one thing you can do to make it a failure is not continuing to improve, rethink and redesign it for users.

The web is constantly changing. This fluid change also impacts resident expectations when it comes to digital services. The last major redesign of the City's website took place in 2014. To put that in perspective since 2010, there have been 16 different versions of the iPhone released. There have been likely just as many, if not more, improvements to the operating system.

Because of these changes and the lessons we learned from letting our website sit without improvements for nearly 20 years before our last redesign, we must plan for more frequent improvements to meet not only the users' expectations, but also improve how we deliver online services to people.

When we receive approval and start on a redesign of the website, it will be nearing 10-years-old. By then there will be changes to the types of devices people use to access our website, ADA requirements, internal and external search and new tools to make it easier to manage our content. All of these types of improvements contribute to a user's experience and builds confidence in our residents. The goal for the City is to have a website with the technology to meet expectations, support new online services and house high quality videos along with integrated social media tools.

Office Utilization and Space for Staff

The office space in the Public Information Office and Action Center needs to be renovated to foster better productivity, growth and collaboration.

The Action Center has a load bearing island in the center of the office that significantly restricts desk space and creates a major barrier to growth, accessibility and communication. If a portion of the wall was removed, it would free up much needed desk space and improve the flow of traffic. The furniture in the Action Center is more than a decade old and needs to be replaced.

The Public Information Office is home to the Special Events Permitting division. The division is served by one full time employee and one part time employee, but we expect it to grow. Due to space issues, the employees are separated and can't collaborate effectively. The space also makes it challenging to accommodate event coordinators who visit our office to get a permit. We would like to either find a more welcoming space for this division to move to or renovate our office to create a team-like environment.

The renovation would need to include 10-12 new desks and related office furniture including modular walls.

PUBLIC TRANSPORTATION AND PARKING

Downtown Parking Management
High demand for parking in downtown Oklahoma City is expected to continue for the forecast period. To meet the demand, additional parking is needed in limited areas such as the Core to Shore where parking needs for existing new development are currently being addressed with the construction of a new municipal parking garage. For the majority of downtown, the total amount of parking available through both private and parking facilities is adequate, however, it is not being managed collaboratively in order to serve the entirety of workers, residents and visitors experiencing downtown. Strategies involving new or revised parking policies, modernizing pricing structures to account for demand-based pricing, and implementing public/private parking management programs should be implemented. The Public Transportation and Parking Department will continue to support efforts by the private sector to increase the public parking supply; however, the private sector has been slow to embrace parking garages as a preferred development option. The Modern Streetcar, serving as a downtown circulator, will also be leveraged to maximize the use of the existing municipal garages.

Northwest Corridor Bus Rapid Transit
The design and construction of the Bus Rapid Transit (BRT) service proposed in the Northwest Corridor Multimodal Plan continues to progress with service expected to begin in 2023. Although the capital costs for the multimodal corridor are funded through a combination of a $14.4 million Federal BUILD grant, GO Bond Funds and Better Streets Safer Cities funding, funding alternatives of annual operating costs of $3.5 to 4.5 million must be identified. A dedicated tax for transit and/or a combination of changes to current taxes and fees to support the BRT operating costs could reduce the financial impact the new service may have on the General Fund.

Public Transportation System Enhancements *(Highlighted Issue – See page 96 for additional information)*

PUBLIC WORKS

Aging Bridge and Drainage Infrastructure
There are currently 550 bridges maintained by Oklahoma City. All bridges in the City are currently open to traffic, but the list of maintenance needs is increasing. The primary funding source for bridge maintenance and improvements is GO Bonds. The 2007 Authorization included $20 million for 17 listed projects and the 2017 Authorization included $27 million for 13 listed projects. The department intends to create a dedicated position for a bridge engineer that would monitor and implement improvements.

Public investment in flood prevention is a critical part of disaster preparedness in Oklahoma City. From the moment rain hits the ground until it drains safely into a natural waterway, a well-built and properly maintained drainage system is the key. Proper drainage also limits pollution and impacts on the environment. Building, repairing and maintaining a quality drainage system also helps Oklahoma City comply with the National Flood Insurance Program, which ensures residents have access to affordable flood insurance from insurance providers.
There are two primary funding sources for drainage infrastructure improvements in Oklahoma City: GO Bonds and the Storm Water Drainage Utility. The GO Bond program provided $33 million for ten listed projects in the 2007 authorization and $62 million for 20 new listed projects in the 2017 GO authorization. The Storm Water Drainage Utility funds have primarily addressed the needs of storm water quality, channel cleaning and

maintenance and the Household Hazardous Waste program. They can be used on certain capital projects but are not a primary source of funding.

Construction Project Delivery

With the passage of the 2017 GO Bond Program and Better Streets, Safer City Sales Tax, the Public Works Department has had an influx of funding and demand to deliver improvements to the City's infrastructure. While much progress is being made, timeliness has been affected by difficulty competing for experienced professional positions like engineers and project managers, as well as skilled labor.

The Streets, Traffic, and Drainage Maintenance Division whose mission is to maintain the City's infrastructure, has been averaging more than 40 vacancies over the past couple of years. In the current labor market, it is difficult to recruit and retain skilled labor positions, especially positions that require a commercial driver license. Some of the positions that have been particularly difficult to fill include construction equipment operators and heavy truck drivers.

To address these issues, the Public Works Department plans to explore different recruitment opportunities, additional funding for training, internships, and possibly community partnership staffing opportunities.

This a problem that has also been affecting the local construction industry and some vendors have reported a limited capacity to take on additional work and complete it quickly. The department has deployed new strategies to recruit and streamline the contacting process, including the use of unit price contracts and corridor project bundling. These changes have made a significant improvement to the speed of delivering these capital projects, but contractor capacity is still a limiting factor.

UTILITIES

Solid Waste Utility – Recycling Program *(Highlighted Issue – See page 93 for additional information)*

Water Utility – Water Supply *(Highlighted Issue – See page 93 for additional information)*

Wastewater Utility – Regulatory Compliance *(Highlighted Issue – See page 93 for additional information)*

FIVE-YEAR FORECAST

FISCAL YEAR 2021 - 2025

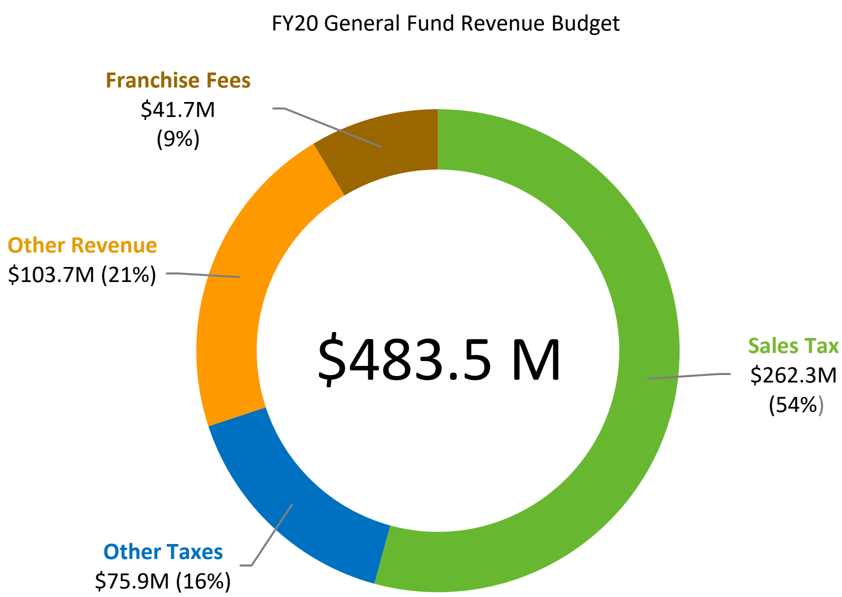
SECTION 6

GENERAL FUND REVENUES

TRENDS AND FORECAST

REVENUE OVERVIEW

The General Fund is supported by a wide array of revenue sources. In fact, there are literally hundreds of individual revenue sources that contribute to the General Fund. Similar sources are combined into categories and shown in the graph below of the FY20 General Fund Revenue Budget. While it would be impossible to forecast every possible area of revenue growth over the next five years, this report attempts to project the most likely growth patterns in revenues. Economic cycles of growth and contraction are expected over the next five years, but rather than projecting the fiscal year in which each cycle will occur, the growth projections were smoothed over the five-year outlook. Because over half of the General Fund budget comes from sales tax, it is the key revenue source. Continued stability of the General Fund will be contingent upon growth in sales tax revenues. For that reason, a significant part of this section will focus on sales tax revenue.

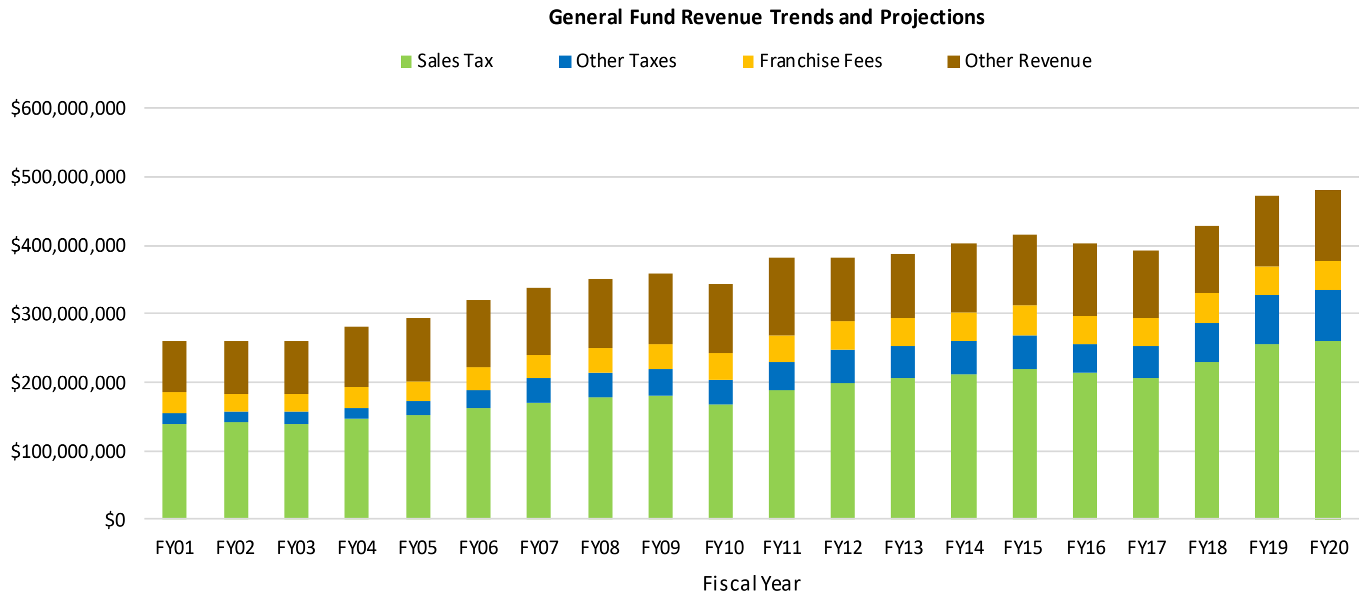


Sales tax is a key revenue source for the City's General Fund.

Sales tax growth can be driven by changes in population, economic health, and movement of retail operations to Oklahoma City.

REVENUE TRENDS

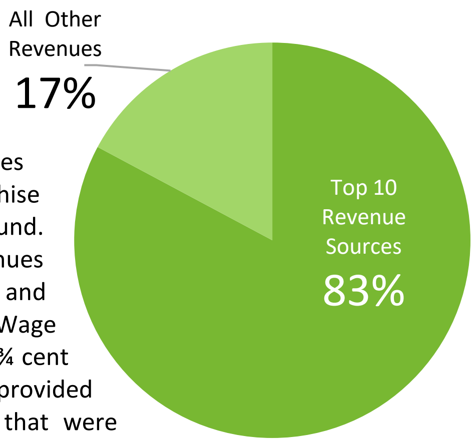
The chart below displays the revenue growth trends in the General Fund over the last 20 years. Sales Tax growth, the largest category in green, was driven by changes in population, economic health, movement of retail operations to Oklahoma City and sales tax rates. Other Taxes, in blue, has grown over 400% in the last 20 years. Use Tax is the largest tax in the Other Taxes category and is levied on goods that are bought in other states and then imported to Oklahoma for use. Use Tax has seen exceptional growth the last two years from online sales as vendors have begun collecting and remitting tax due to changes in State Law. Additionally, both Sales and Use Tax collections has grown since FY18 due to a permanent ¼ cent increase in the tax rate. Franchise Fees, in yellow, have grown at a steady rate with growth largely attributed to the remitters customer base, and in some cases, such as electric, gas, and water, weather has influenced consumer consumption. The Other Revenue category, in brown, is made up of various sources but it too is largely influenced by population which is reflected in building permit revenue, licenses, fees, and other service charges.



TOP 10 GENERAL FUND REVENUE SOURCES

When combined, the top 10 budgeted line item revenues account for 83% of the General Fund Revenue Budget. Two of the top 10 revenues are taxes, Sales Tax and Use Tax. Those two taxes combined make up 67% of the General Fund Budget. Revenue from Franchise Fees accounts for two of the top 10 revenue sources and account for 5% of the General Fund Budget. The OG&E Franchise Fee is consistently the third largest revenue source for the General Fund. The Other Revenue category contains the remaining five top 10 revenues which range from court fees and traffic fines to building permits and wage adjustment from the Public Safety Sales Tax Funds. Wage adjustments are payments to the General Fund from the dedicated ¾ cent Sales Tax for Public Safety, that when approved by voters, provided compensation increases for uniformed police and fire positions that were funded in the General Fund.

General Fund FY20 Revenue Budget



Revenue Source	FY20 Budget	% of GF	Category
Sales Tax	$262,266,708	54%	Sales Tax
Use Tax	$63,492,414	13%	Other Taxes
OG&E Franchise Fee	$20,862,466	4%	Franchise Fees
Fire Wage Adjustment	$12,312,425	3%	Other Revenue
Police Wage Adjustment	$9,459,160	2%	Other Revenue
Court Costs	$8,350,732	2%	Other Revenue
Traffic Fines	$6,163,596	2%	Other Revenue
Cox Cable Franchise Fee	$5,801,786	1%	Franchise Fees
Building Permits	$5,561,589	1%	Other Revenue
Public Works TMS Charges	$5,150,000	1%	Other Revenue
TOTAL	**$399,420,876**	**83%**	

The sections that follow focus on the trends and projections of each revenue category and what may be influencing recent trends and future projections.

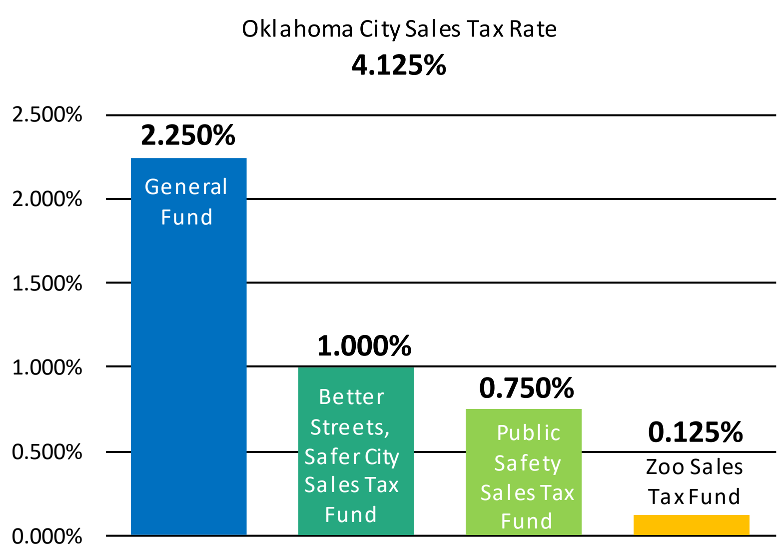
Use tax collections have experienced double-digit growth in FY20 from online purchases due to changes in the State Law that now require online retailers to collect and remit sales tax.

SALES TAX

Sales tax is applied to most retail transactions, as provided by State law, and is collected by local vendors who then remit the revenue to the Oklahoma Tax Commission (OTC). The City maintains agreements with the OTC for administration and enforcement services associated with sales and use taxes. The City receives revenues one month after receipt by the Oklahoma Tax Commission. The Tax Commission receives revenues from vendors around the 15th of the month. For most vendors, this payment is for actual sales in the last half of the prior month and for estimated sales for the first half of the current month. For smaller vendors, the payment is for actual sales made in the prior month.

With voters approving a permanent ¼ cent sales tax increase effective January 1, 2018 the sales tax levied by the City increased from 3.875% to 4.125%. Combined with the state levy of 4.5%, the total state and municipal sales tax rate charged within corporate Oklahoma City limits is 8.625%. Canadian County assesses an additional levy of 0.35% for purchases made within their jurisdiction. Pottawatomie County assesses an additional 1.00% sales tax levy.

The city's 4.125% sales tax levy is divided between the various funds. The General Fund receives 2.250% and is the single largest revenue source for the General Fund which funds day-to-day operations. The Better Streets, Safer City Sales Tax Fund receives 1.000% and is a temporary sales tax to fund street resurfacing, street enhancements, trails and bicycle infrastructure. Condition of City Streets continues to be citizens highest priority and this temporary tax will help fund improvements. The Better Streets, Safer City tax will expire April 2020; however, voters recently approved the MAPS 4 tax to extend the 1.000% for an additional eight years thereby temporarily maintaining the 4.125% Oklahoma City sales tax rate. The Public Safety Sales Tax Fund receives 0.750% and is split evenly between Police and Fire. It is a permanent dedicated sales tax. The Zoo Sales Tax Fund receives .125% and is also a permanent dedicated sales tax that can only be used for capital improvements and operations at the zoo.



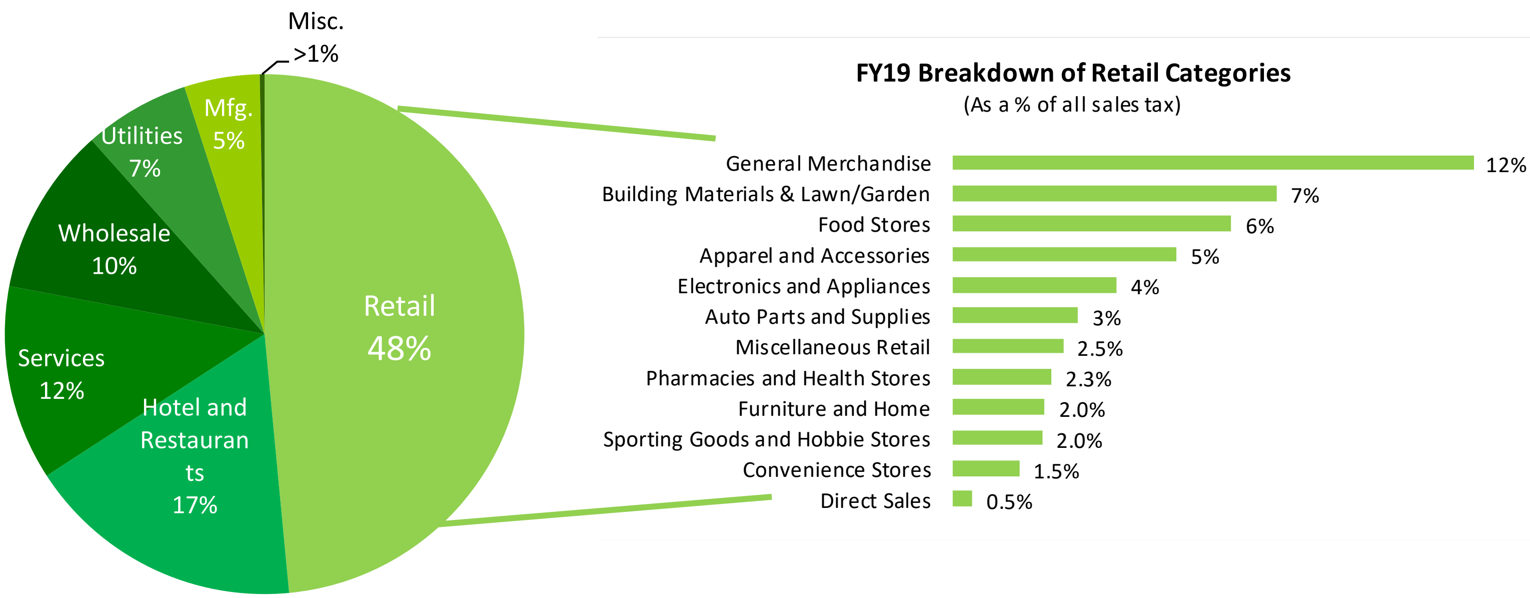
Better Streets, Safer City will expire April 2020 and be replaced by MAPS 4 to continue the 1.000% tax for an additional eight years.

SALES TAX REVENUE BY NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS)

The OTC categorizes all vendors who remit sales tax using the North American Industry Classification System (NAICS). NAICS classifies business establishments by type of activity to monitor and analyze related statistics. It is the system used by the Federal Government and allows for better levels of comparison by providing uniformity in data collection and reporting through the standardization of business establishments throughout the country.

The charts below illustrate the most significant sectors of Oklahoma City's sales tax base for FY19. As shown in the pie chart, the retail sector represents almost half of all taxable sales. The NAICS system allows further division within the major groups for a more granular look at the data. Because retail is such a large piece of sales tax, special attention is paid to the components within retail which are detailed in the bar chart.

FY19 Sales Tax by NAICS Categories

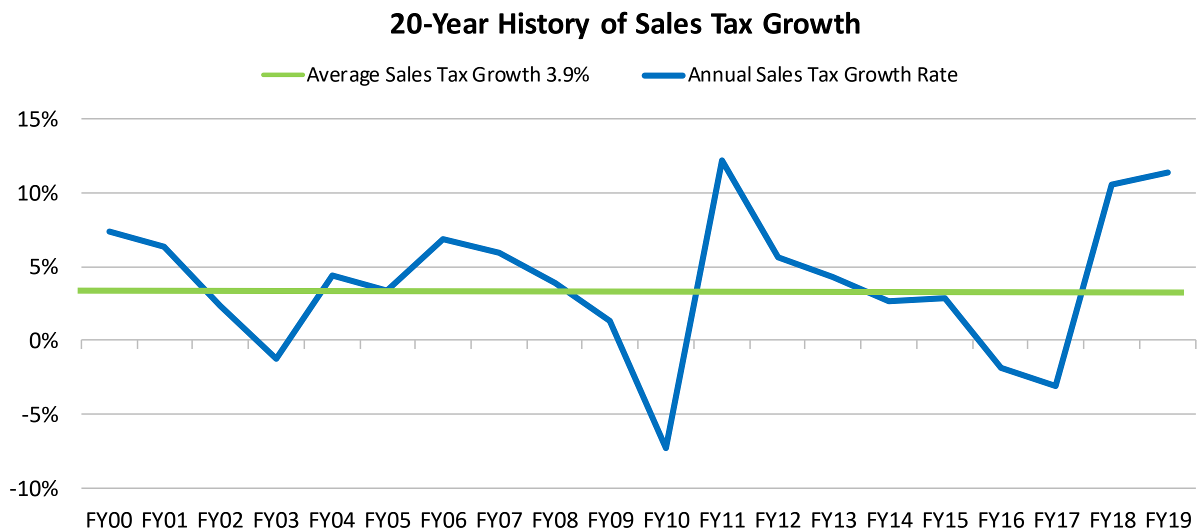


One limitation of the system is that a business can only be classified in one NAICS category even if the business sells multiple types of goods. For example, the sales tax from Walmart on groceries is shown as Retail Sales Tax, General Merchandise rather than Food Stores because Walmart is considered a General Merchandise retailer. Likewise, the sales tax on a pair of jeans purchased from Academy Sports would show under Sporting Goods rather than Apparel and Accessories because Academy is classified as a sporting goods store.

The amount of retail activity and the mix of retail activity can shift gradually over time due to changes in consumer habits, economic conditions, and tax law changes. Other factors that can affect retail activity include growth of the superstore, consumer tastes such as eating out more often, and tax law changes such as the change from taxing cigarettes through Sales Tax to excise taxes in 2004. Whatever the reasons for the changes, monitoring and understanding retail sales are critical to the financial health of Oklahoma City. The City Treasurer's Office prepares a monthly sales and use tax collection report highlighting their analysis of tax collections and trends that are emerging.

SALES TAX REVENUE FORECAST

With the permanent ¼ cent sales tax increase that went into effect January 1, 2018, sales tax is now 54% of General Fund revenue and the single largest revenue source in the General Fund. The uncertainty in the economy makes projecting sales tax a challenging task. How will the national economy perform, how will the Oklahoma economy be impacted by the energy sector and the price of oil and natural gas, and how will a continued shift in consumer purchasing from local retail stores to online purchases affect Sales Tax collections? These questions make forecasting sales tax a real challenge as growth can change dramatically from year to year as shown in the chart below.

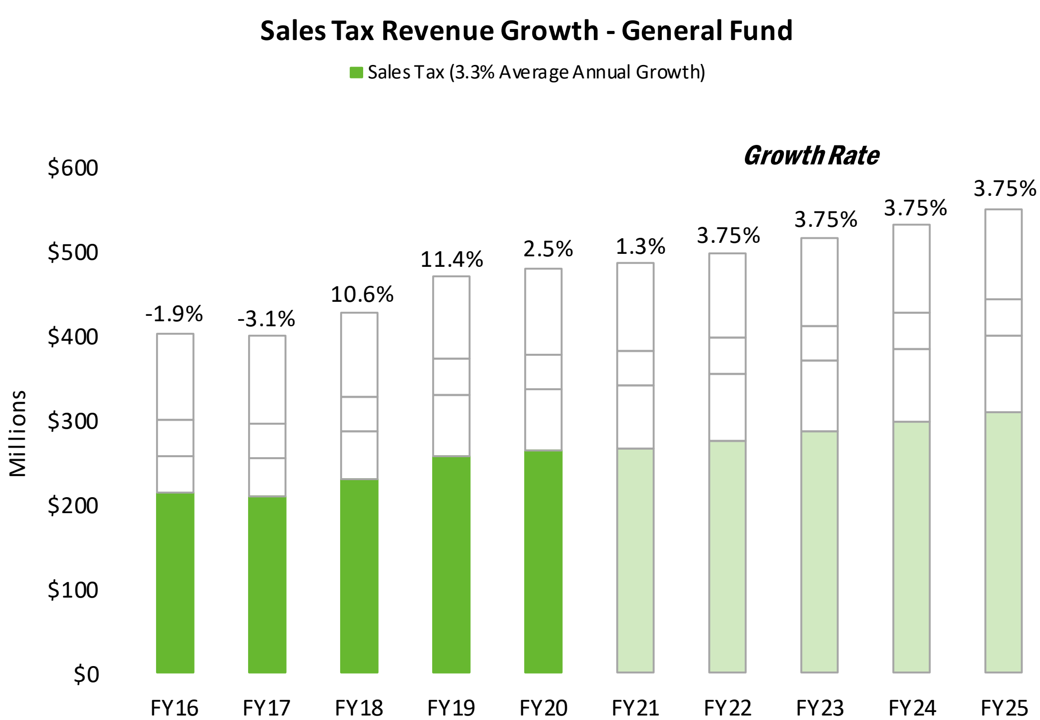


For Oklahomans, low natural gas and oil prices are a concern as those prices result in lower exploration and production activity and decreased employment in the mining sector. Oil and gas have proven to have a significant impact on our local economy even as other industries have grown such as Aerospace. In the last five years, Oklahoma City has seen the 20-year average growth rate decline from an average of 4.0% growth per year to 3.5% growth per year. The trend continues to be analyzed since Oklahoma City maintained one of the lowest unemployment rates in the nation at an average of 4% during the time period.

Part of the Economic Forecast developed by Dr. Russell Evans, Economist at Oklahoma City University, was an estimate of taxable retail sales. Preliminary discussions about the forecast in January 2020 were used in the projection for sales tax growth for the remainder of FY20 and for FY21. Based on those discussions and our long-term average, sales tax growth for FY20 is expected to grow at a base rate 2.5% from FY19.

Sales Tax from restaurants is one of Oklahoma City's most steady revenue streams, even in economic downturns.

As a result of the recent weakening and future uncertainty in the oil and gas industry, we used a base sales tax growth rate of 1.33% to prepare our FY21 budget. As estimates are refined this spring based on the recent activity and economic indicators the FY21 sales tax growth rate will be adjusted accordingly. In the last four years of the forecast, we projected sales tax would grow at 3.75%, the 10-year average growth rate. When the five years are combined, the average growth rate for sales tax is projected to be 3.3% annually. This projection results in a FY21 sales tax budget of $266.1 million that increases to $308.4 million in FY25.



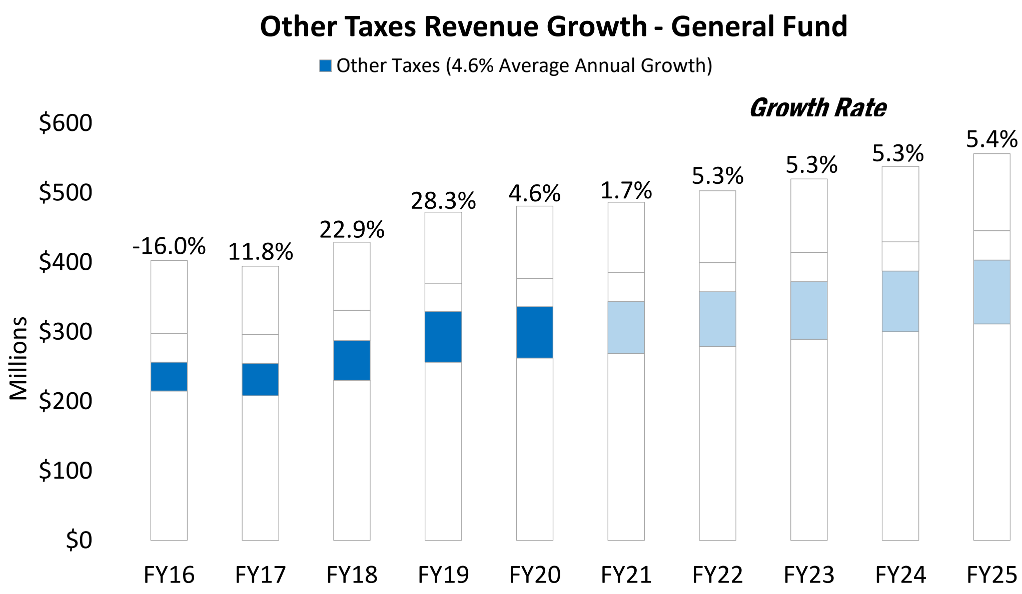
OTHER TAXES

The City receives tax revenue from a variety of other sources. Use Tax, which is levied on goods and equipment imported from other states for use within Oklahoma and not for resale, is the second largest revenue source in the General Fund. Other taxes remitted to the City include tobacco excise tax, alcohol tax, commercial vehicle tax, and motor fuel tax. All of these taxes are collected by the state and remitted either directly to the city or passed through the county to the city.

OTHER TAXES REVENUE FORECAST

Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. In FY20, use tax is expected to remain flat due to the recent slow down in the oil and gas industry, but is being offset by increase Amazon and other retailers remitting use tax for online purchases and a permanent ¼ cent increase in the use tax rate that became effective January 1, 2018. In FY21, Use Tax was projected to grow only 2.0% as a general slowing in the economy is expected to continue and the tax rate increase will have normalized. For FY22 through FY25 we projected a return to a higher long-term growth rate of 5.3%.

Commercial vehicle tax, motor fuel tax, alcohol tax and the excise tax on tobacco, are all allotted to the City from the state by formula. Commercial vehicle and motor fuel tax stay rather steady at a 2.0% average growth rate. In the Fall of 2018, alcohol laws changed causing a substantial increase in alcohol tax collections in FY19 and is expected to normalize by FY21. Those increases have been offset by reductions in tobacco excise tax collections which are projected to remain flat. The last tax in this category is Occupation Tax which is levied by the City for specific occupations when the City is the principal place of business for the occupation and has a projected growth of 1.6%. Over the five-year forecast the average growth for all other taxes, which is 16% of the General Fund, is projected to be 4.6% annually resulting in a projected budget of $74.7 million in FY21 that increases to $91.9 million in FY25.



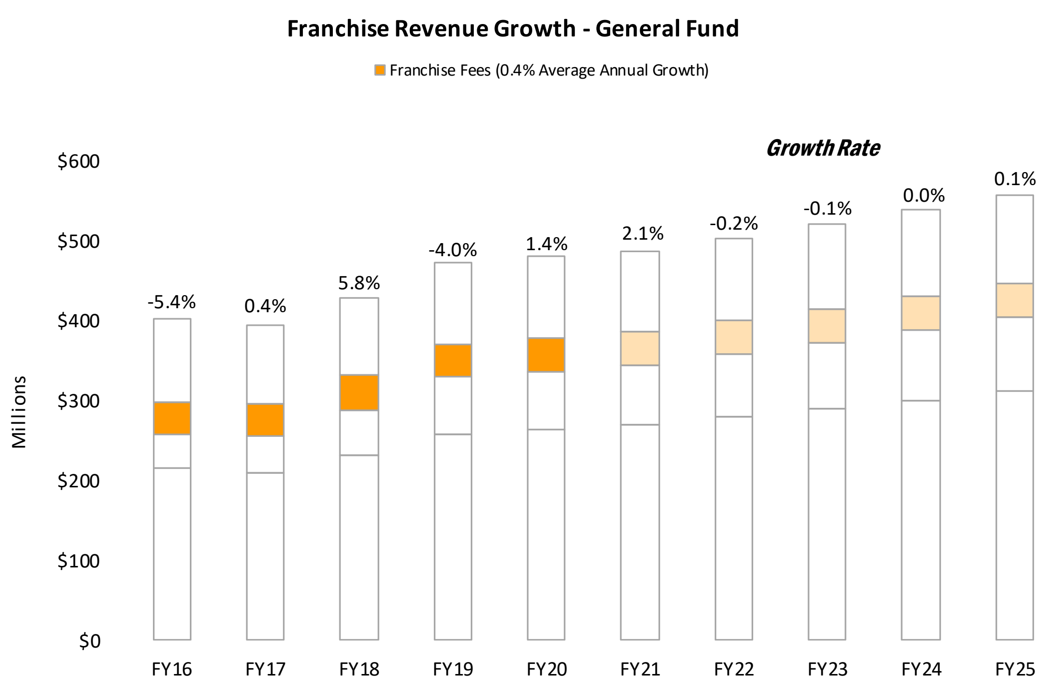
FRANCHISE REVENUES

Franchise revenues are derived, generally, from a levy on the gross receipts from utilities for the privilege of accessing public streets and rights-of-way and to reimburse the city for the cost of administering and enforcing the franchise. Two of the top 10 revenue sources in the General Fund are from franchise fees. Those two, Oklahoma Gas & Electric and Cox Cable, remit fees to the city that typically comprise about 76% of all franchise revenue and 5% of all General Fund revenue. In addition, Cox Cable and the City's Water, Wastewater and Solid Waste Management enterprises operate as regulated monopolies using City rights-of-way. Accordingly, these entities also make payments to the General Fund and are counted in the franchise revenues for this category.

Revenue from the energy-based companies is influenced by customer base and can be significantly impacted by weather and fuel prices. Video/cable franchises have been declining the last five years as subscribers follow a national trend of cancelling cable TV services and opting for online video services. As telephone landlines become less common, we continue to see revenue from that sector decrease. Franchise revenues from Water, Wastewater and Solid Waste grow steadily as population and rates increase.

FRANCHISE REVENUE FORECAST

Franchise revenue is expected to finish FY20 up 1.0% from FY19 due to mild weather. OG&E is the largest franchise remitter and is consistently the third largest revenue source in the General Fund. From FY21 through FY25 OG&E is projected to remain flat which is consistent with their 5-year historical average. Cable franchises are expected to continue their decline over the next five years which brings the overall average growth down to 0.4% annually. The FY21 projected budget for franchise revenue is $42.1 million which decreases to $41.9 million in FY25.



OTHER GENERAL FUND REVENUES

Many other sources contribute to the General Fund revenue base, including six of the top 10 revenue sources. Revenue sources in this category include:

- **Licenses, Permits & Fees** - Building permits, the 9th largest revenue source in the General Fund, is projected to grow almost 3.0% in FY20 due to several new construction projects. Building permit revenue is 1% of the total General Fund revenue budget. In FY21 through FY25, growth is projected to be 1.6% annually, the five-year average. Other revenue sources in this category include various business licenses and permits for activities ranging from garage sales to elevators. The charges in this category are designed to recover the cost of enforcement and administration of city codes and account for 3% of the General Fund revenue budget.

- **Services & Administrative Charges** - Three of the top 10 revenues in the General Fund are in this category, Police and Fire wage adjustments and charges for administrative services. These are payments from the Public Safety Sales Tax Fund to the General Fund for reimbursement of paid police and fire wages. These two payments are 5% of the General Fund budget and are projected to grow at 1% annually. The third top 10 revenue source are charges for administrative costs for G.O. Bond projects. Also included in this category are animal shelter, engineering, planning, recreation, police fees, parking meter fees, and inter-agency charges for services such as accounting and legal. Combined, these charges account for 16% of the General Fund revenue budget. Each revenue source was projected to grow based on their own historical average; overall the category is projected to grow at 2.2% annually.

- **Fines** - This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed for violations of other municipal ordinance, and revenue from court costs. Two of the top 10 revenue sources in the General Fund are from this category, Court Cost and Traffic Fines. Combined, these two revenues account for 4% of all General Fund revenue and have been in decline for the last five years due to fewer citations issued and case filings. The category is expected to grow at a modest 0.5% annually from FY21 to FY25.

- **Other Revenues and Intrafund Transfers** - This category includes a variety of miscellaneous sources such as interest, revenues from the sale of city property, rental income, and several small transfers from various city funds. In total, these revenue sources account for 2.0% of the General Fund revenue budget. In FY21, transfers are expected to decrease at 96% based on a $1.5 million one-time transfer in FY20 that will not reoccur in FY21. In FY22 through FY25, transfers return to a historical growth rate projection of 2%. Other revenues are expected to grow at historical averages of 5.1% in FY21 through FY25.

Licenses and Permits, such as Building permits, are charged to recover the cost of enforcement and administration of city codes.

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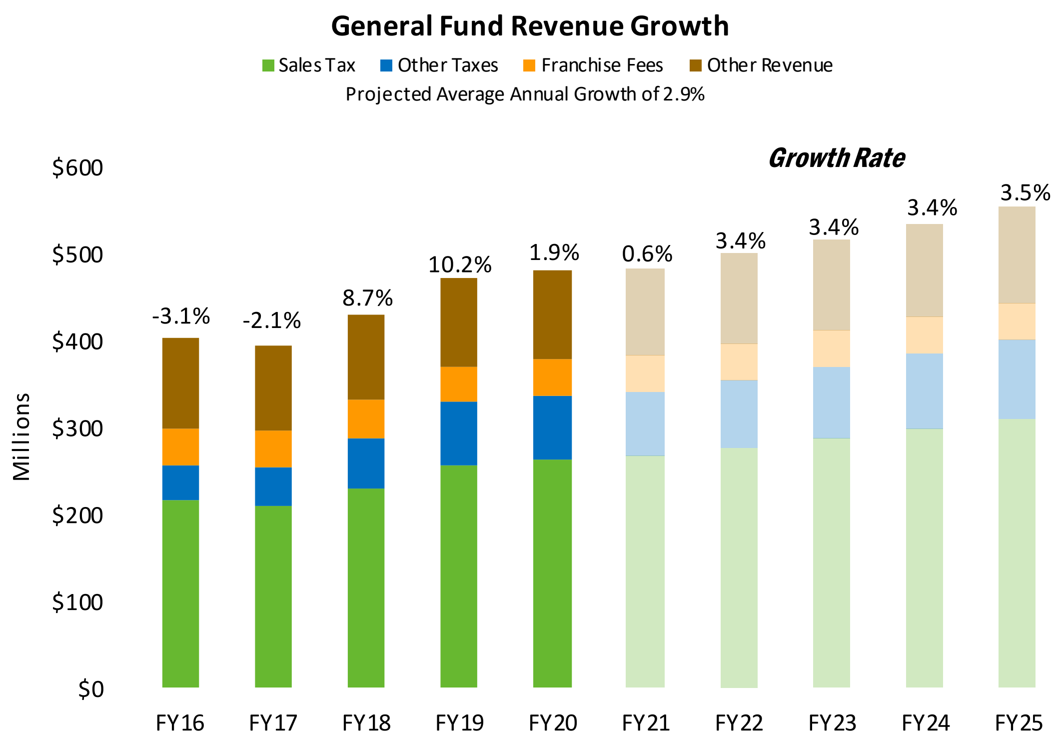
Licenses and Permits, such as Building permits, are charged to recover the cost of enforcement and administration of city codes.

OVERALL REVENUE FORECAST

When all of the categories are combined General Fund revenues are expected to grow at about 2.9% per year over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated revenue of $484 million in FY21 to $553.5 million in FY25.



FIVE-YEAR FORECAST
FISCAL YEAR 2021 - 2025

SECTION 7

GENERAL FUND EXPENSES

TRENDS AND FORECAST

FIVE-YEAR FORECAST

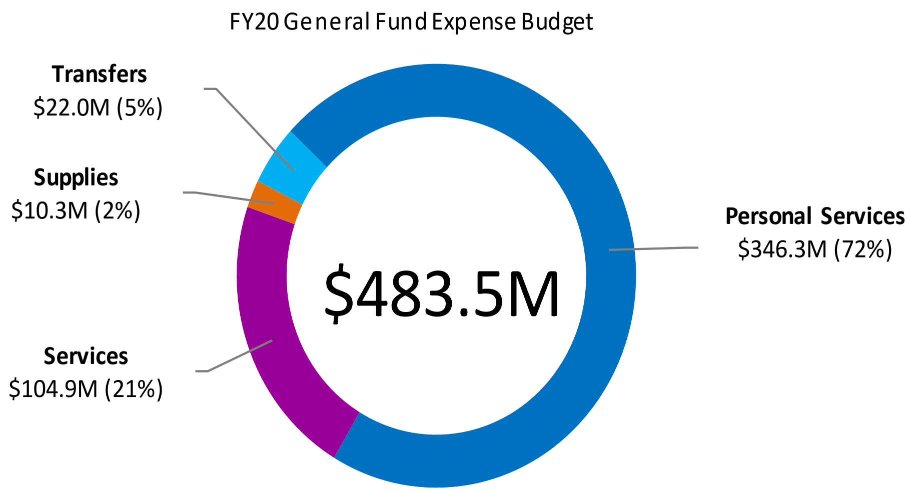
FISCAL YEAR 2021-2025

EXPENDITURE OVERVIEW

City expenditures encompass an enormous variety of goods and services for items ranging from employee salaries to sophisticated computer programs to dog food. While it would be impossible to forecast every possible area of expenditure growth over the next five years, this report attempts to project the most likely growth patterns in expenses. Economic cycles of growth and contraction are expected over the next five years; however, the growth projections do not reflect measures typically taken to balance the budget such as hiring freezes, reductions in force, or delaying capital expenditures. Overall, it is anticipated that general operating costs will continue to grow at a rate higher than inflation due primarily to salary and benefit growth.

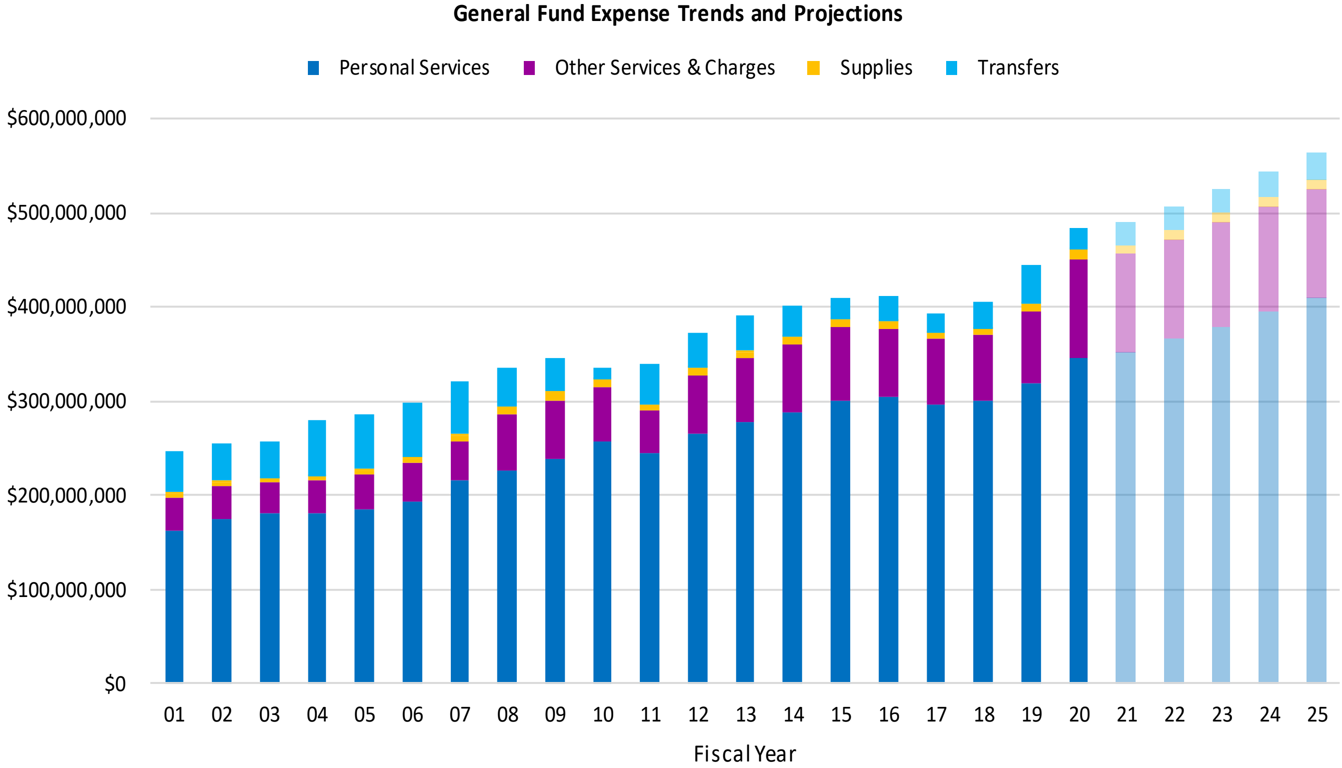
FY20 BUDGET

The City budgets according to five general categories: personal services, other services, supplies, capital, and transfers. These categories also provide a convenient way to divide City expenditures to more closely examine the trends that are occurring and for making projections.



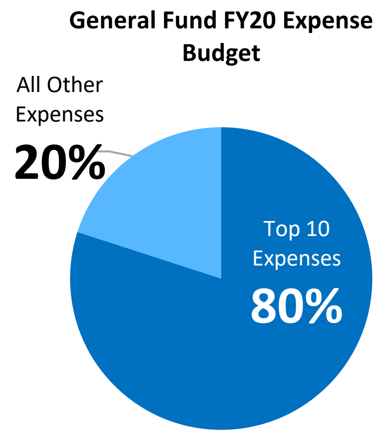
EXPENSE TRENDS

The chart below displays the expense trends in the General Fund; expenses have almost doubled or grown 96% over the last 20 years. Personal Services, the largest category in blue, is driven by the number of employees and the pay and benefits of those employees. The Other Services category experienced the most significant growth of all the categories at 204%. A change in business process in FY08 recategorized some expenses from transfers to payment for services. The significant growth in the Other Services category in FY20 occurred when services once performed by City employees, which had been categorized as personal services, were contracted out and are now expensed as Other Services. For example, operation of the Civic Center Music Hall, a performing arts center, was contracted to the Civic Center Foundation for operation in FY19. The smallest category, Supplies, grew 118% over the 20-year period, while Transfers declined 49%, due to the change in business process in FY08 described above.



TOP 10 GENERAL FUND EXPENSES

When combined, the top 10 budgeted line item expenses account for 80% of the General Fund Budget. Although not inclusive of all personal related services, four of the top 10 line-items are from the Personal Services category and equal 64% of the General Fund budget. Personal related services include salaries and wages, insurance, retirement, and retiree insurance (aka Other Post-Employment Benefits or OPEB). The four largest line items in the Other Services category represent 12% of the General Fund budget and include payments to the Central Oklahoma Transportation Parking Authority (COTPA) for public transportation and payments to the Oklahoma City Economic Development Trust (OCEDT) and payments to internal service funds for Information Technology and Risk Management services. The two largest line items in the Transfers category represent 4% of the General Fund budget and include annual transfers to the Oklahoma City Public Property Authority (OCPPA) for operating costs at the Chesapeake Arena, Cox Convention Center and a transfer to the Capital Improvement Fund for fleet replacement and capital maintenance to City assets.



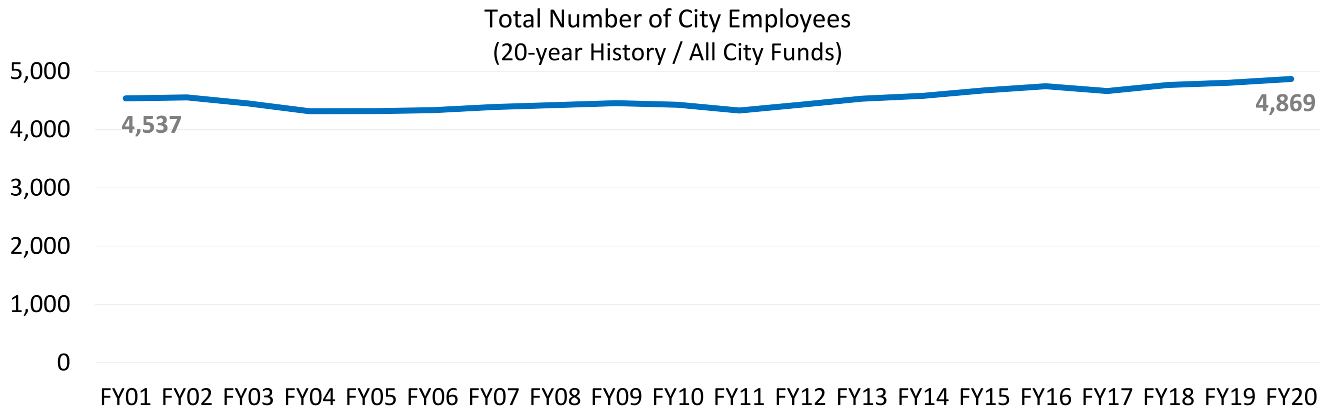
Expense	FY20 Budget	% of GF	Category
Salaries and Wages	$224,550,407	46%	Personal Services
Health and Welfare Insurance	$48,856,918	10%	Personal Services
Retirement/Pension Contributions	$25,118,975	5%	Personal Services
Payments to COTPA	$21,819,320	4%	Other Services
Chargeback - IT	$18,326,632	4%	Other Services
Retiree Health Insurance	$14,562,836	3%	Personal Services
Arena/Convention Center	$8,860,290	2%	Transfers
Transfer to CIP	$8,403,568	2%	Transfers
Payment to OCEDT	$8,359,621	2%	Other Services
Workers Comp/Insurance	$7,879,334	2%	Other Services
TOTAL	**$386,737,901**	**80%**	

The sections that follow focus on the trends and projections of each expense category and what may be influencing recent trends and future projections.

Health and wellness insurance continues to be one of the fastest growing expenses in the General Fund.

PERSONAL SERVICES

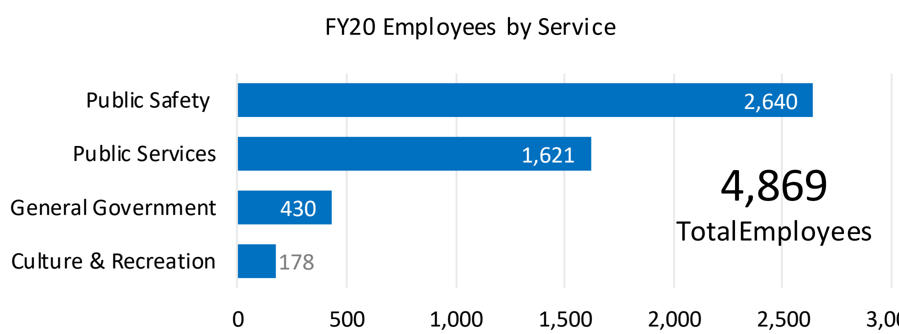
At 72% of the FY20 General Fund budget, personal services are the primary driver in expenditure growth in the General Fund. Personal services include salaries, insurance, retirement contributions, parking, uniform and tool allowances. The two main drivers in the growth of personal services are the number of employees and the pay and benefits of those employees. Four of the top 10 line-item expenses are in this category are related to the pay and benefits of employees and include salaries and wages, health insurance, retirement/pension contributions, Other Post-Employment Benefits (OPEB) which is healthcare insurance for retirees; and overtime. The FY20 budget increased the number of positions by 65, or 0.78%, to 4,869 – the largest count in City history.



Employee count tends to go up and down with economic cycles as shown in the graph above; but, overall the number of City employees has remained rather steady, growing only 7.3%, or 332 budgeted positions, over the last 20-years. Staff has managed to control growth by gaining efficiencies through use of technology, contracting out services to industry experts such as management of the arena, convention center and performing arts venue, and reprioritizing services.

Change in Employee Count over last 20-years		
Public Safety	213.0	8.8%
Public Services	227.0	16.2%
General Government	-63.0	-12.7%
Culture and Recreation	-45.0	-20.2%
Total Change	332.0	7.3%

In terms of distribution of City employees among the various categories of services provided, the largest group is focused on public safety which make up 54% of the City's workforce and includes fire, police and courts employees. Second largest, at 33% of all employees, is the public services category which includes the Water, Wastewater, and Solid Waste Utilities, Public Works, Airports, Public Transportation and Parking, Development Services, and Planning departments. General government comprises 9% of the total and is made up of the employees in the Mayor's and City Council Office, City Manager's Office, City Clerk's Office, City Auditor's Office, Municipal Counselor's Office, Finance, Information Technology, General Services and Personnel departments. Finally, culture and recreation consists of the Parks and Recreation Department and represents 4% of the total.



Personnel Department staff visit with potential applicants about career opportunities with the City at a job fair.

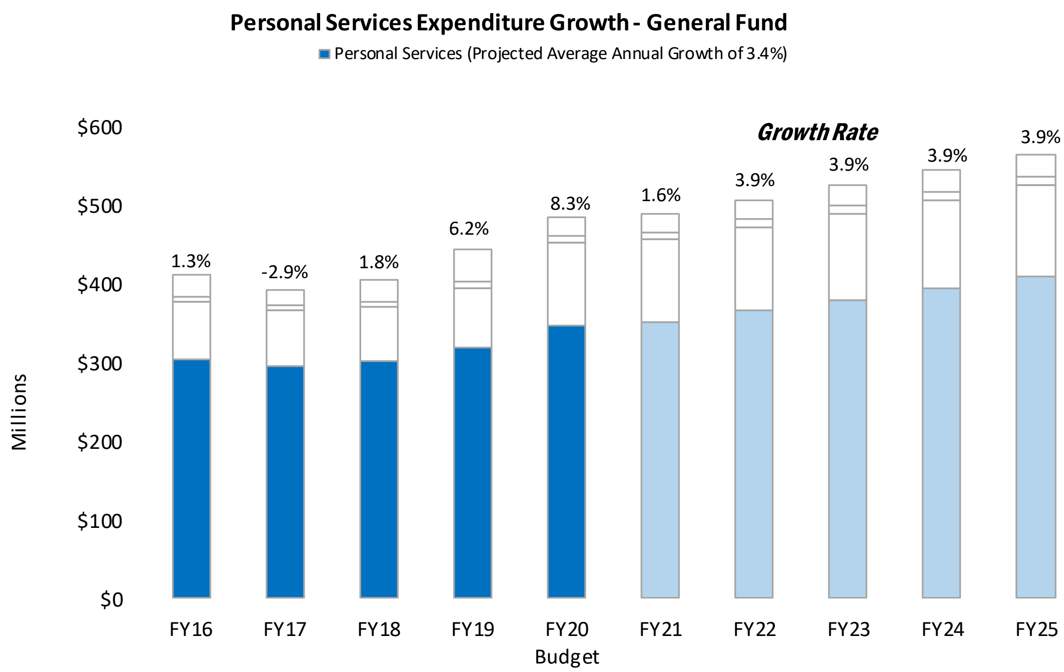
The total number of City employees under-represent the full level of effort in these areas due to two primary factors; the first is that these figures only count city employees and do not include employees of the city's trusts. The Oklahoma City Zoological Trust has about 165 full-time employees and the Oklahoma City Public Property Authority has about 56 full-time employees working at the city's golf courses. These employees would count in the culture and recreation category.

There are also 243 full-time employees in the Central Oklahoma Transit and Parking Authority who would fall in the public services category. The second factor is the many city contractors providing city services, such as the employees of SMG who operate the Chesapeake Energy Arena and Cox Center, the employees of Waste Management, Inc. who provide much of the city's trash service, and the employees of Severn Trent who operate the city's wastewater treatment plants. Contract employees are not counted in any of these totals. In addition to the number of employees, the other portion of the personal services cost equation is the cost per employee. The City of Oklahoma City is committed to attracting and retaining a highly skilled work force by offering competitive salaries and must balance that goal with available resources and demands for additional services.

Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY20 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,406 general positions. The Fraternal Order of Police (FOP) represents the 1,235 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 999 uniformed fire positions. The remaining 1,229 positions are unrepresented management and executive positions that receive pay plan changes through city management recommendation and Council approval. When a group's pay plan is increased, all members of the group receive an increase. In addition to the pay plan increase, employees are also eligible for an increase in pay due to merit or longevity depending on the group to which they belong. Employees in AFSCME or management would not receive a merit pay increase if their performance were rated as unsatisfactory during their annual performance review or if they were at the top step of their pay range. FOP and IAFF employees would not receive a merit or longevity increase if they were at the top step in their pay range and have been working for the City for more than 20 years.

PERSONAL SERVICES FORECAST

Looking back at how employee costs have grown in recent years helps to inform the projections for the future. In FY21 the rate of growth is projected at 1.6% due to the addition of seven positions to the General Fund and adjustments to salaries and wages, insurance and pension contributions. Six of those positions were added to the Personnel Department to help fill vacant positions and the other position was added to the Information Technology Department to enhance cyber security. In FY21, 2,981 positions are expected to be budgeted in the General Fund with the remaining 1,894 or so positions budgeted in other significant operating funds such as Police or Fire Sales Tax, Utilities, Airports, Storm Water Quality, Internal Service Funds, etc. The projected annual growth rate increases to 3.9% in FY22 though FY25. Increases to position related expenses were based on average annual increases from the last five years and ranged from 2% for inflation to 7% for health insurance. Over the five-year forecast period, the average growth is projected at 3.4% annually for personal services with a projected budget of $352 million in FY20 that grows to $409.8 million in FY25.



OTHER SERVICES

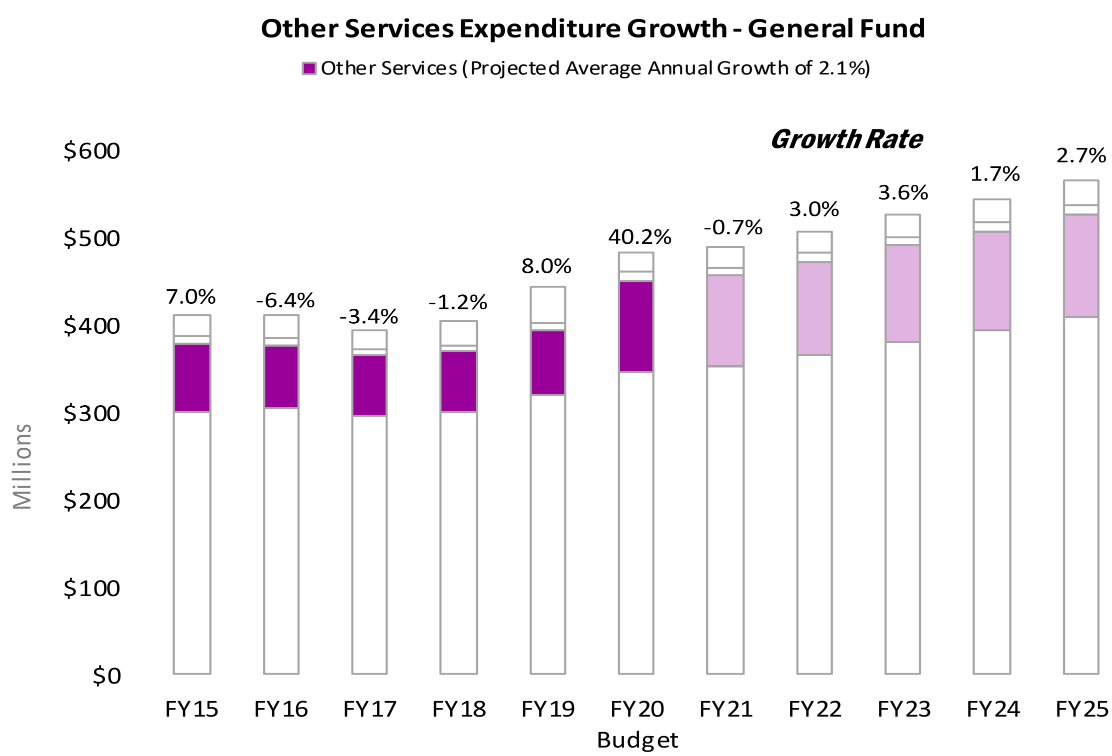
Other services include expenditures for service contracts, utilities, printing, employee training, vehicle repairs, professional services and chargebacks. Chargebacks are charges between internal city agencies for services such as vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance. The FY20 budget for other services totals $104.9 million or 21.7% of all General Fund expenditures. Four of the top 10 line-item expenses are in this category and include payments to the Central Oklahoma Transportation and Parking Authority (COTPA) for operation of the City's Public Transportation System and payments to the Oklahoma City Economic Development Trust (OCEDT) for various economic development activities and payments to the internal services funds for Information Technology and Risk Management services. Those four line-items combined consume 56% of the category budget and 11.7% of the total General Fund budget.

OTHER SERVICES FORECAST

Most of the costs for other services during the forecast period are expected to grow at a base rate of 2.0% per year, the average annual growth rate over the last five years, with adjustments for specific items made as needed. The average growth is projected to be 1.9% annually for other services over the next five years with a budget of $104.1 million projected in FY21 that grows to $116 million in FY25.

FUTURE EXPENDITURES FOR NEW OR ENHANCED SERVICES

In FY22, $0.9 million was added for operations and maintenance of the MAPS 3 lower Scissortail Park and then grows slightly each year following. In FY22, and additional $4.8 million was added for bus replacement; the amount increases to a total of $6.0 million the following year and then goes to $0 in FY24, but then increases to $0.6 million in FY25. Beginning in FY24, $2 million was added for management of the First Americans Museum and $3.5 million for operation of the City's first Bus Rapid Transit route. Projections are continually being refined by staff and will be adjusted accordingly each year.



SUPPLIES AND CAPITAL

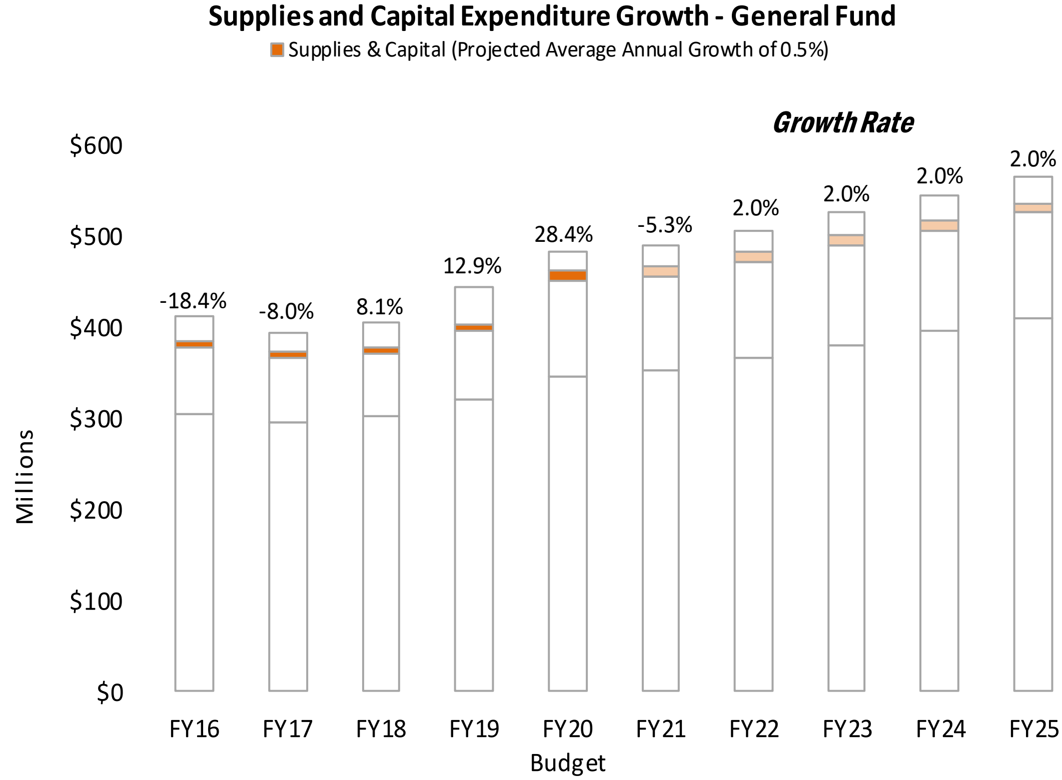
For purposes of this report, expenditures for the supplies and capital categories have been combined as each consistently represents only a small fraction of city operating costs or about 2% of the General Fund budget. Expenditures falling in the supplies category include purchases of materials needed to affect repairs and routine maintenance on city equipment and facilities. Examples include asphalt for street repairs, sand/salt for snow routes, petroleum products such as fuel, and various other nondurable goods such as office and cleaning supplies. Costs to the city for supplies are affected by the demand for services and by various market variables. Purchases for supplies are contracted by the city and awarded to the vendor that provides the lowest and best bid. Many of these contracts are citywide, providing savings through economies of scale.

Capital costs (replacement of office equipment, etc.) have, generally, been minimal in the General Fund. Most capital projects not funded by dedicated sources, such as bonds or dedicated sales taxes, are handled in the Capital Improvement Fund. Most funding for the Capital Improvement Program is included as a transfer expenditure to another City fund.

SUPPLIES AND CAPITAL FORECAST

In FY21, supplies and capital are budgeted to decrease 5% due to reductions in repair and maintenance costs and asphalt and chip seal road materials which are now being funded out of the General Obligation (G.O.) bond funds. In FY22 through FY25, expenses are projected to average 2.0% annually due to inflation and historical average growth rates. When averaged over the five-year forecast period, the growth is projected to be 0.5% annually for supplies and capital with a projected budget of $9.7 million in FY21 that increases to $10.5 million in FY25.

Supplies and Capital Expenditure Growth - General Fund

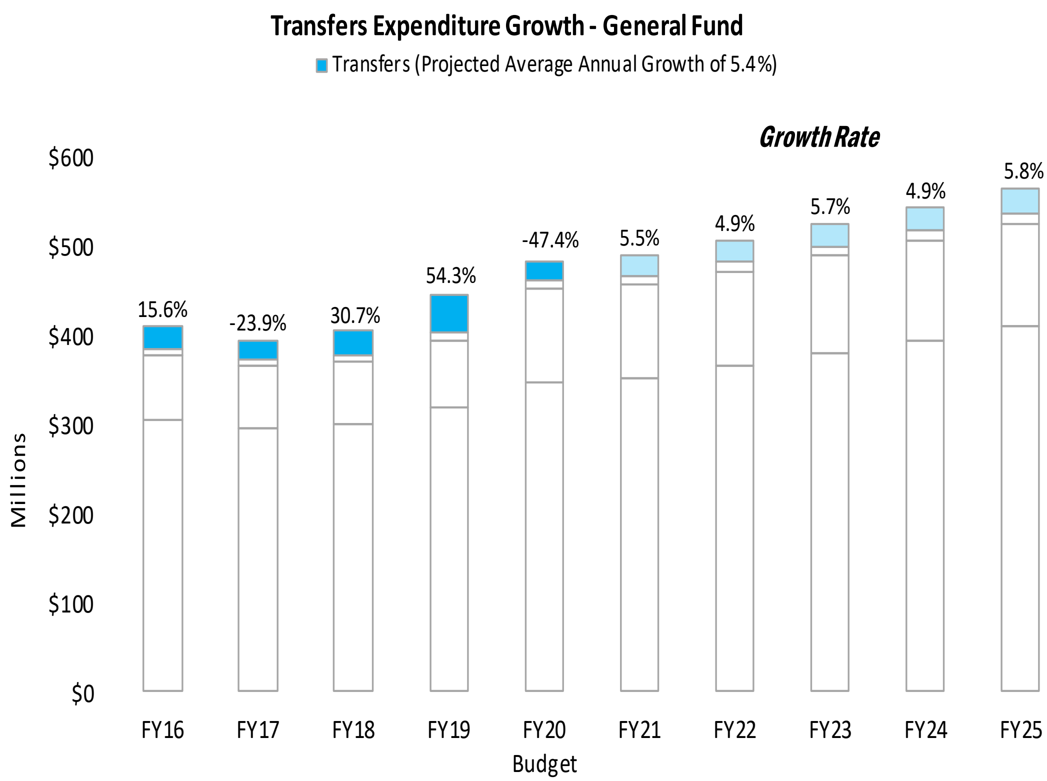


TRANSFERS

General Fund transfer costs reflect the General Fund's direct financial support of several services whose own dedicated funding sources are insufficient to meet City objectives. The FY20 General Fund budget includes $22 million in transfers which is 4.5% of the total budget. Two of the top 10 line-item expenses are in this category and include a FY20 budget of a $8.9 million transfer to the Oklahoma City Public Property Authority (OCPPA) for operation of the Chesapeake Energy Arena and Cox Center and an $8.4 million transfer to the Capital Improvement Project Fund that will largely be used for fleet replacement and capital maintenance to City assets. Those two transfers combined consume 78% of the category budget and 4.5% of the total General Fund budget.

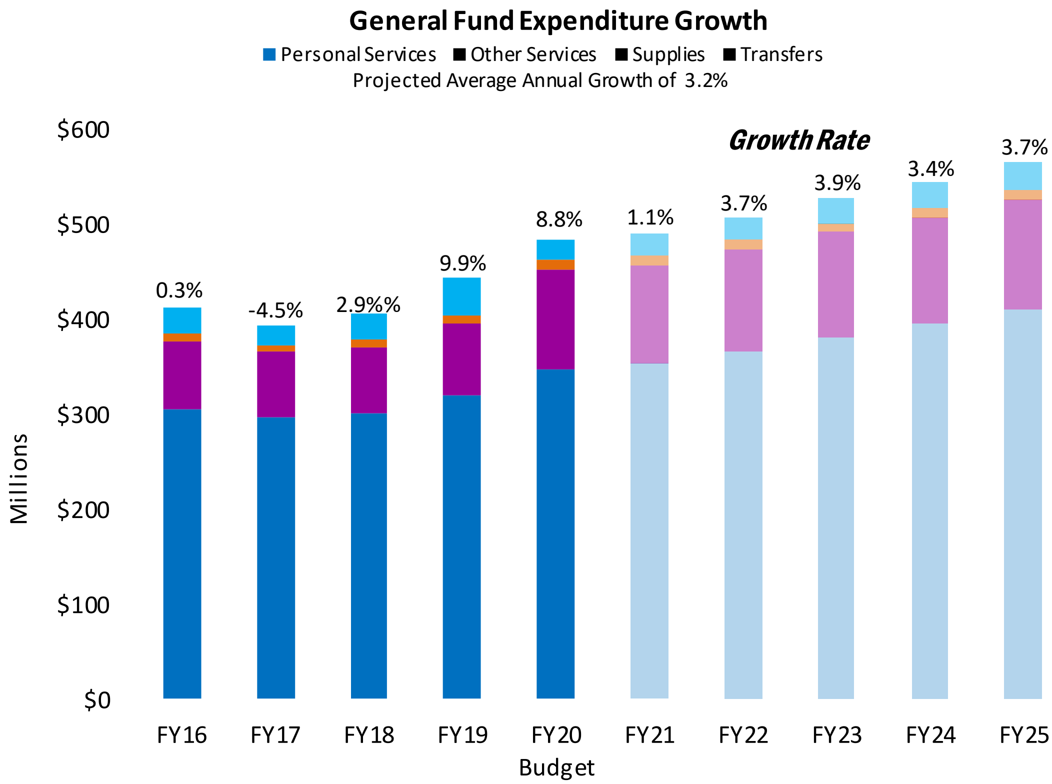
Transfers Expenditure Projections

The growth rate for each transfer is budgeted individually using historical data and analysis of specific projects. When averaged over the five-year forecast period, the growth is projected to be 5.4% annually for transfers with a projected FY21 budget of $23.2 million that increases to $28.6 million in FY25.



OVERALL EXPENDITURE FORECAST

When all the categories are combined, the net effect in General Fund expense is growth of 3.2% annually over the next five years. Growth in FY21 includes the addition of 7 full-time budgeted positions to provide enhanced services. The FY21 budget is projected to be $489 million which increases to $565.1 million in FY25.



FIVE-YEAR FORECAST
FISCAL YEAR 2021 - 2025

SECTION 8

GENERAL FUND

REVENUE/EXPENDITURE GAP

FIVE-YEAR FORECAST

FISCAL YEAR 2021-2025

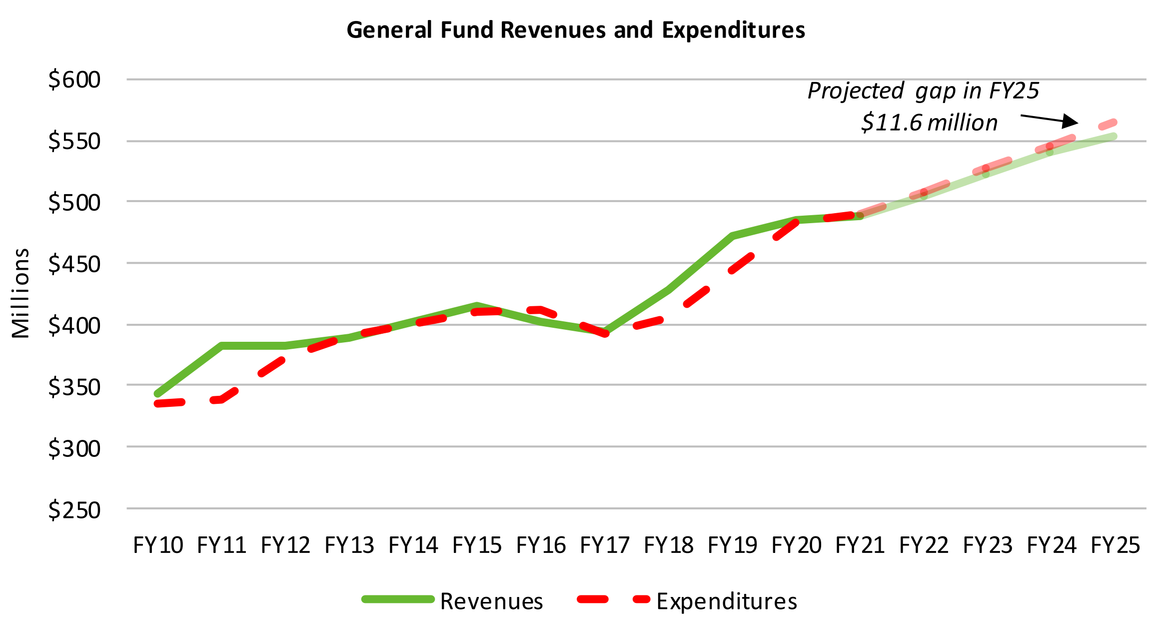
PROJECTED REVENUE/EXPENDITURE GAP

Historically, the city's financial forecasts have projected a revenue/expenditure gap. A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to the city's continued financial stability. After the national recession and declining revenues in FY10, the city experienced significant growth in FY11 and FY12 which put the city back on a much more positive track. Growth slowed again as the energy sector contracted in FY16 and FY17 with Oklahoma City's General Fund revenue declining 3.05% in FY16 and 2.12% in FY17. The last back-to-back declines in the General Fund happened in the 1980's during the oil bust. The local economy experienced a mini boom with growth of 8.8% and 10.1% in FY19. A ¼ cent increase in the sales tax rate that was effective mid-year FY18 generated a portion of the growth which carried over into FY19 and FY20. The growth in FY20 is expected to be 1.1%. In FY21 General Fund revenue growth is projected to be 0.6% due to a slowing economy and the ¼ cent permanent increase in sales tax having normalized after being in effect for the entire fiscal year.

A financial gap appears when projected General Fund expenses exceed anticipated revenue

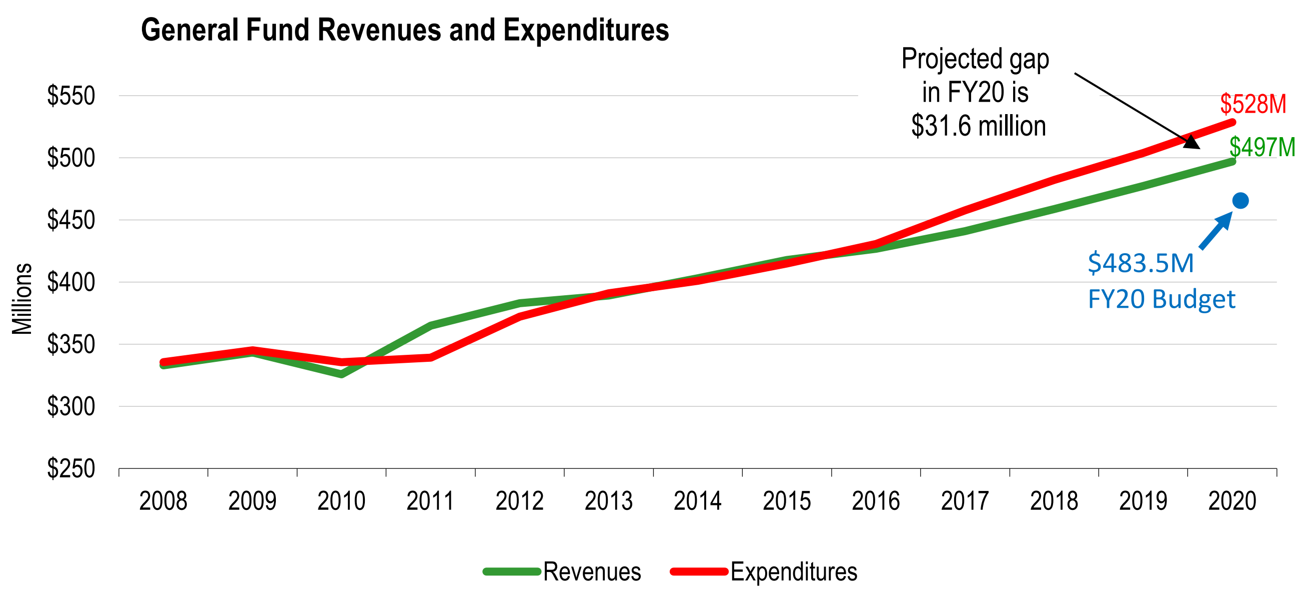
Current operating and capital issues facing the city will require careful planning to ensure a sound financial future. The five-year forecast is one of the tools the city uses to plan for continued financial health by facilitating the development of long-term strategies to deal with the issues facing the city within the framework of the resources available.

Through FY25, revenues are expected to average 2.9% growth annually. Expenditures are expected to grow at an average rate of 3.2% annually. The difference between the two growth rates is reason for concern, although the gap between revenues and expenditures will be closed each year so that the city has a balanced budget. The projected gap, if no adjustments to revenue or expenses are made, grows to $11.6 million in FY25. The General Fund Revenues and Expenditures chart below shows ten years of actual figures (FY10 – FY19) and projections for FY20 – FY25. In past years, when the expenditure line is above revenue line, the city used reserves (fund balance) to balance that year's revenues and expenses. In years where revenues were above expenditures, the city added to reserves.

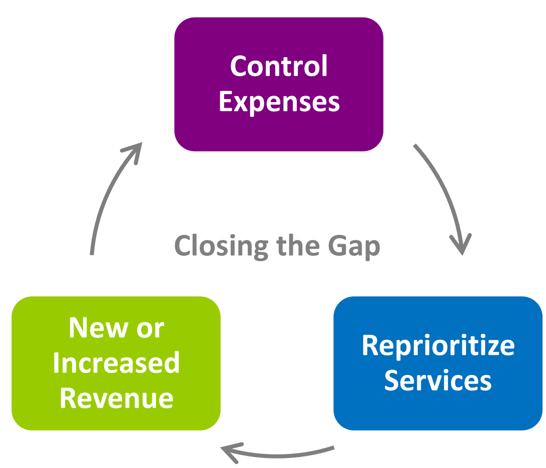


CLOSING THE GAP

State law mandates a budget be balanced or revenue exceeds expenses, so every year the city must close the gap. Projections are our best guess of what the future holds based on the information available at the time. While projections are almost always inaccurate, they do provide a plan from which to work and bring attention to items that need to be addressed. The graph below is the General Fund projections for FY20 from five years ago. Expenses were projected to be $528 million and revenue $497 million. The FY20 budget ended up being $483.5 million, well below the projected expenses and revenues from five years ago. Two major events occurred in the last five years that were not projected: 1) An economic downtown in the local economy resulted in two straight years of declining revenue (FY16 and FY17); and 2) a ¼ cent increase in the sales and use tax rate increase were implemented January 1, 2018. The chart below was included to demonstrate that each year the budgeted gap was closed, and projections refined using the latest data.



Expenditure control is the area where the city has the most flexibility and the most power to close the gap. Since personal services are the majority of city costs, controlling the growth in this area, especially health insurance and overtime, will be key to maintaining financial balance. The most effective means to achieve a balance between controlling personnel costs while maintaining competitive salary and benefit packages for employees in the future will be to limit salary and benefit growth to within the approximate growth rates of city revenues. The city continues to work to find ways to maintain personal service cost growth within the revenues available and the demand for increased services. Improved efficiency in operations is also an avenue for controlling expenditure growth. Tight budgets have necessitated that departments continually look for ways to do more with less, thereby driving many efficiency gains, but it has also resulted in some reductions in service levels.



Another option is for city leaders to continue reprioritizing city services. Over time, community needs and priorities change. Programs and services may be added or reduced based on community needs. The City must continue to assess the need for specific services, evaluate operational efficiencies and consider the potential benefits and consequences of discontinuing some programs.

From the revenue side of the equation, the options are more limited as citizen approval is required for new or increased taxes. It is, however, important for the city to explore alternate sources of funding to provide revenue for new or expanded programs and to generally reduce dependence on sales tax.

Controlling health insurance costs will be key to maintaining financial balance in the General Fund.

CONCLUSION

As city leaders prioritize services to meet the community's future needs, the nature of municipal government in Oklahoma City will invariably change. Not every situation can be anticipated, but cyclical economic changes are to be expected over a long period of time. The city must continue to monitor legislation that can affect either revenues or expenditures and work to diversify Oklahoma City's revenue base. Through calculated, combined efforts, the city's projected General Fund financial gap can be addressed. Continued sound financial management will be the key to ensuring the city will be able to live within available resources during the next few years.

FIVE-YEAR FORECAST

FISCAL YEAR 2021 - 2025

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