



THE CITY OF OKLAHOMA CITY

**FIVE-YEAR  
FORECAST**  
FY 2019-2023

The background of the page is a large, faint, abstract mosaic composed of various colored triangles. The colors include shades of light blue, teal, yellow, and purple. The triangles are arranged in a complex, non-repeating pattern that covers the entire page.

Abstract Triangle Mosaic background used throughout the document created by Davidzydd - Freepik.com



**FIVE-YEAR  
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FY 2019-2023

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**FIVE-YEAR  
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SECTION 1

**EXECUTIVE SUMMARY**

# SUCCESSFUL OUTCOMES



2017 GO BOND PACKAGE



**BETTER STREETS  
SAFER CITY**

ONE CENT TEMPORARY TAX



¼ CENT SALES TAX



PUBLIC SAFETY FLEET



RADIO SYSTEM



MUNICIPAL COURT



BODY WORN CAMERAS



ΣMBARK NIGHTSHIFT  
RUNNING UNTIL MIDNIGHT



COURT RECORDS SYSTEM



IMPACT FEES



EMPLOYEE MEDICAL CLINIC



OPEB LIABILITY



PRIMARY DATA CENTER



WATER CONSERVATION



WATER RIGHTS SETTLEMENT

# EXECUTIVE SUMMARY

Overall, the city is in a favorable financial position. Fiscal Year 2018 is proving to be a remarkable year with several achievements and trends pointing towards a strong and stable future. 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' baseline expectation is for City Sales Tax collections and local labor market conditions to improve through the Spring of 2018 and transition from recovery phase to a market fundamental phase with the turn of the fiscal year. Staff will continue to work with the City Manager to present Council with a proposed FY19 budget that balances operating needs with available resources. 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.

## CURRENT FISCAL YEAR

In September, Citizen's demonstrated their confidence in the City by passing a \$967 million General Obligation (GO) Bond Package with almost half going towards building and rebuilding streets across Oklahoma City; a temporary 27-month sales tax to fund \$240 million in street resurfacing, enhancements, sidewalks, trails and bike lanes; and a permanent one-quarter cent sales tax increase that will largely invest in public safety. The one-quarter cent sales tax increase that went into effect January 1<sup>st</sup> restored funding for 48 frozen police officer positions, 21 frozen fire fighter positions, added 81 police officer positions, and added 39 firefighter positions. In addition, five Public Works positions were added bringing budgeted positions to 4,767 for FY18, the most budgeted positions the City has ever had. Since FY12, Police has added 214 uniformed police officer positions and 19 civilian positions. General Fund revenue collections have been above year-to-date budget projections. Excluding the one-quarter cent sales tax increase, growth of 4% is expected at year-end compared to the original projection of 2% growth.

## FINANCIAL EVALUATION TOOLS

**Financial Trend Monitoring System (FTMS).** 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. With declining tax revenues, it was no surprise that Sales Tax Revenue and Hotel Tax revenue both moved from positive to neutral ratings in this forecast. While those two worsened, two others showed improvement. Active Drilling Rigs improved from negative to neutral as rig count continues to improve and Average Weekly Earnings (AWE) moved from negative to neutral; AWE did not advance to positive because even after 20 consecutive months of year-over-year growth the inflation adjusted weekly wage was only \$3 more than what it was five years ago. The overall results of the FTMS indicator ratings were 10 positive, 9 neutral and 3 negative.

**Forecast Issues.** Many financial issues are beyond the scope of the annual budget process and require other solutions. Fifteen successful outcomes, including those on the left, demonstrate how previously identified issues were resolved. Unfortunately, other issues still remain including the top 43 financial issues departments will be facing over the next five years. By identifying the significant issues now we are able to provide an early warning system so staff can develop a plan for the possible direction and next steps to be taken.

## GENERAL FUND OUTLOOK

Over the next five years, General Fund revenues are expected to average 3.79% growth annually while expenditures are projected to average 4.69% growth annually. The imbalance in revenue and expenditure growth patterns means that there is a projected gap of \$15.1 million in the General Fund in FY23. 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**  
FY 2019-2023

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.

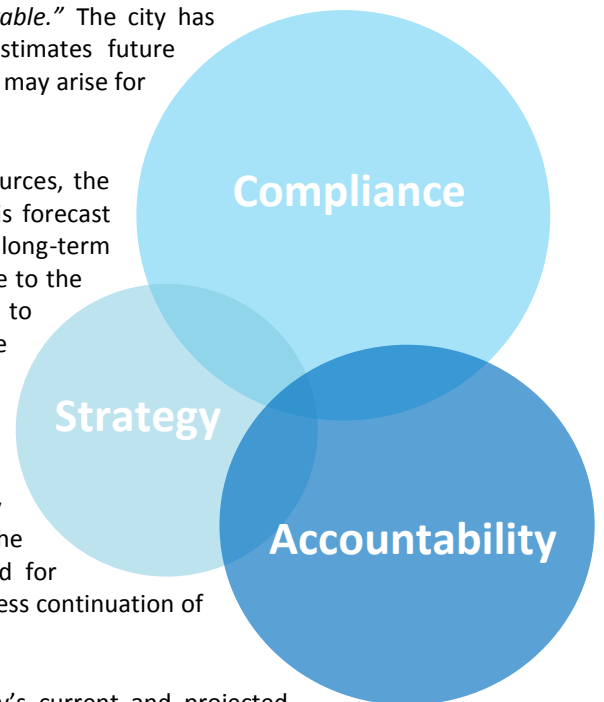
- **STRATEGY.** With such a broad scope of services and limited resources, the City has to be careful and strategic in allocating its resources. This forecast provides the Mayor and City Council with information to formulate long-term strategies to ensure city services are available at a level appropriate 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 is able to 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 a number of 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.





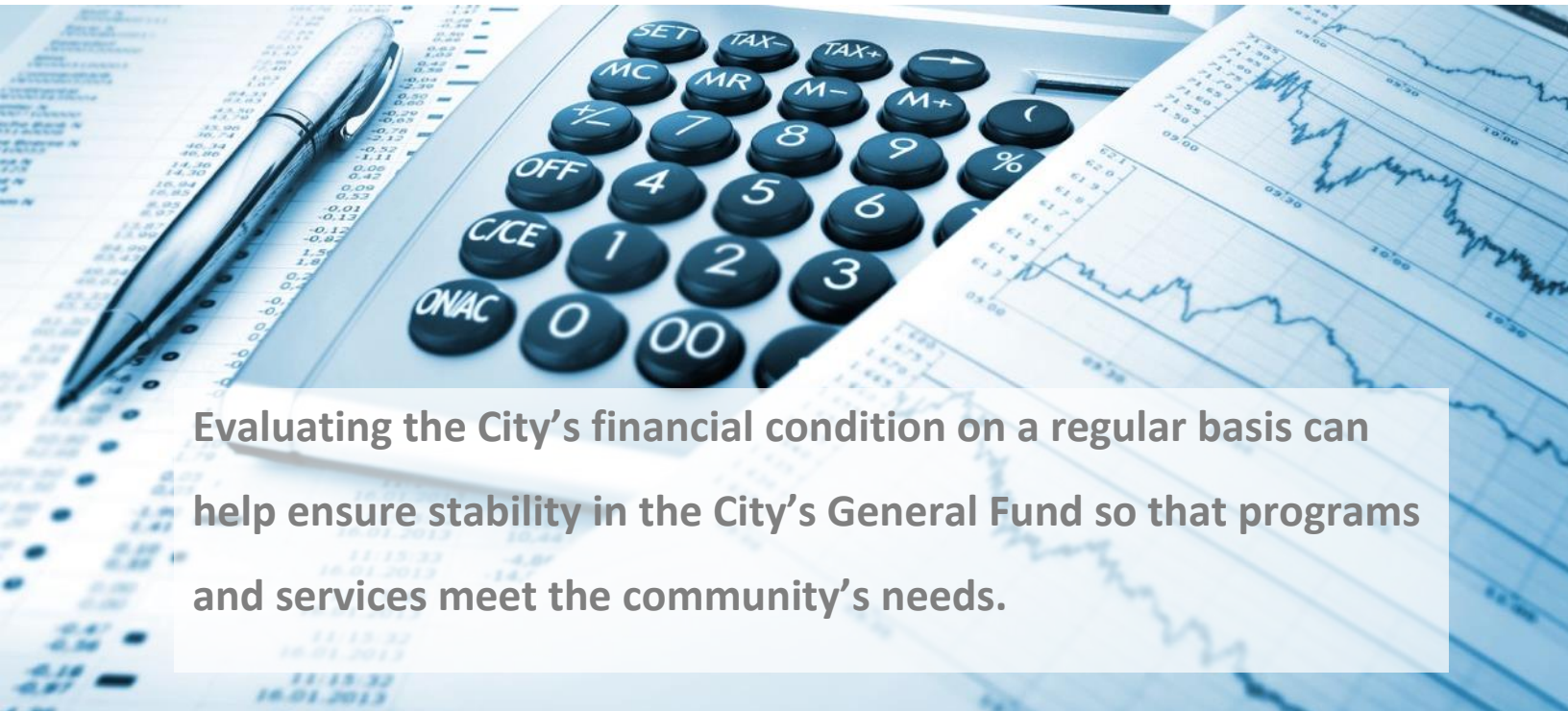
## STRUCTURE OF THE REPORT

This year's Five-Year Forecast follows last year's format. Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University (OCU), developed Section Three, 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 FY19 and this forecast.

Following the Economic Outlook is Section Four, Financial Trend Monitoring System. This system 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.

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 review of successful outcomes from previous issues. Next, are highlighted issues that are significant in scope and last is a summary, by department, of the issues facing city departments.

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 FY23.



**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.**

**FIVE-YEAR  
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FY 2019-2023



SECTION 3

**ECONOMIC OUTLOOK**

# OKLAHOMA ECONOMIC OUTLOOK: 2018-2019

Prepared by:

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January 31, 2018

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

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## Preface

The Economic Outlook is an annual undertaking of the Center for Regional Economic Forecasting and Policy Analysis. The center is housed in the Steven C. Agee Economic Research and Policy Institute in the Meinders School of Business at Oklahoma City University. The Economic Outlook is a component of a larger project providing fiscal forecasts and analysis to the City of Oklahoma City. Once released to city officials, the outlook is made available through the Greater Oklahoma City Chamber of Commerce. Both the city and the chamber provide valuable feedback and comments, but the forecast and all errors and omissions are the sole responsibility of the author.

The forecast is an econometric exercise and is not a consensus forecast of business and civic leaders. All models are constructed from publicly available data sources including datasets from the Bureau of Economic Analysis and Bureau of Labor Statistics. Two comments on the nature of the forecast will help the reader to interpret and make use of the information contained therein.

First, the forecasts are entirely determined by the past information contained in the dataset and the econometric specification of the models. No attempt has been made to “adjust” the forecast for the beliefs or anticipation of the modeler. For example, construction forecasts are not adjusted to reflect the anticipated impact of large, announced public sector investments. The reader is encouraged to treat the forecast as a baseline from which to make their own adjustments and ultimately reach their own conclusion.

Second, the statewide and metro forecasts are generally derived independently of each other. That is, while most models allow for information from one geography to inform the forecast of another, no explicit relationship (identity) is forced to hold between regions.

Any questions or comments regarding the forecast can be forwarded to Russell Evans at [rrevans@okcu.edu](mailto:rrevans@okcu.edu).

## Introduction

The recovery in the state’s oil and gas sector that began in the second half of 2016 sustained through 2017. A modest recovery in oil and natural gas prices above the critical \$50/\$3 levels supported a return to drilling activity and hiring across the state. Industry gains accelerated to the end of 2017 with strength expected to carry into much of 2018. The recovery in the state’s primary sector portends a return in 2018 to broad economic strength in the state with Oklahoma City, Tulsa, and much of the rural areas of the state poised for solid economic performance. Beyond the near term, Oklahoma needs to start preparing for a long-term transition away from oil production as global oil demand is expected to peak in the next twenty years with a slow transition away from the commodity to follow.

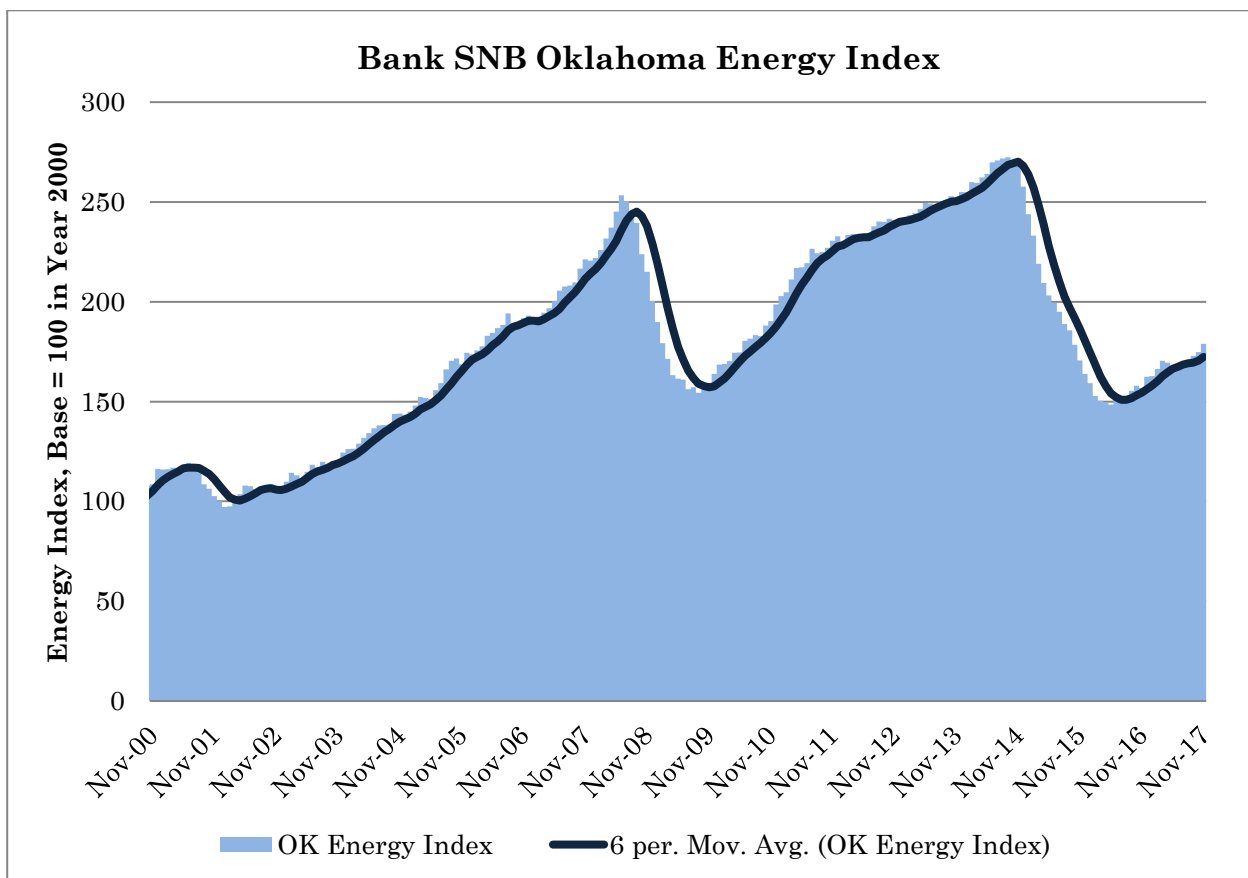
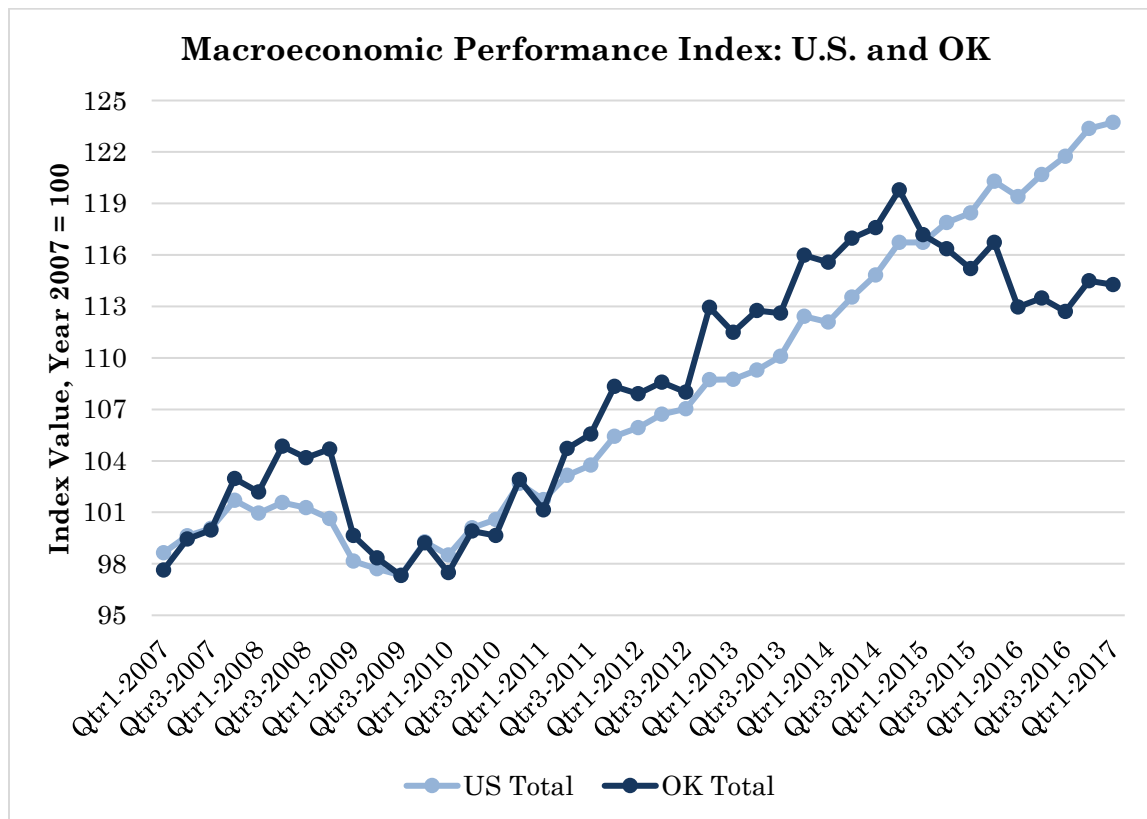


Figure 1: Bank SNB Oklahoma Energy Index: 2000-2017

Oklahoma's commodity driven economy is subject to substantial deviation from the U.S. economy. The performance indices below track growth in a basket of indicators covering production (GDP), income, and employment. The performance indices reveal Oklahoma outperforming the nation as the Great Recession first materialized in 2008 and again through the 2011- 2014Q2 period. As oil prices fell into the fall of 2014, so too did the state's economic performance. The trajectory of the state's economy turned early in 2017 with strength building through the end of the year. If oil and natural gas prices stay above their critical levels and U.S. conditions post solid gains in 2018 the state's economy will outperform the U.S. economy in 2018 as market forces work to close the state's performance gap.



*Figure 2: U.S. and Oklahoma Macroeconomic Performance Index*

Oklahoma City’s well-documented economic divergence that began just prior to and accelerated in the recovery from the Great Recession continued through 2017. The economic performance indices track employment, income, and business creation and reflect the economic separation experienced in Oklahoma City. The economic success of the Oklahoma City area is explained by its location along the fast-growing I-35 corridor as well as successful programs to develop a robust amenity complex in and around the city’s core. Geography will continue to favor Oklahoma City in the years ahead with these same market forces slowly moving towards Tulsa. Tulsa continues to be an important center of income and production in the state and is expected to post some of the strongest economic gains in 2018. As the state’s two primary metro areas become increasingly connected the state’s economic fortunes will be increasingly determined by what happens in these two cities.

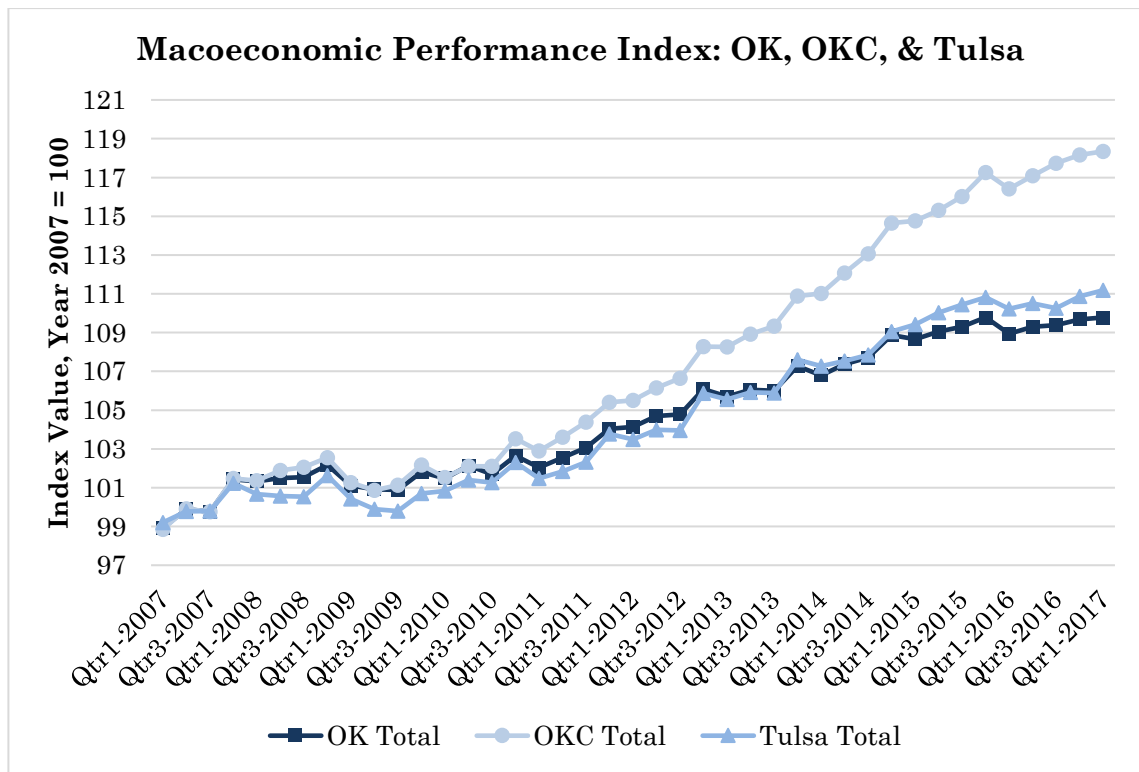
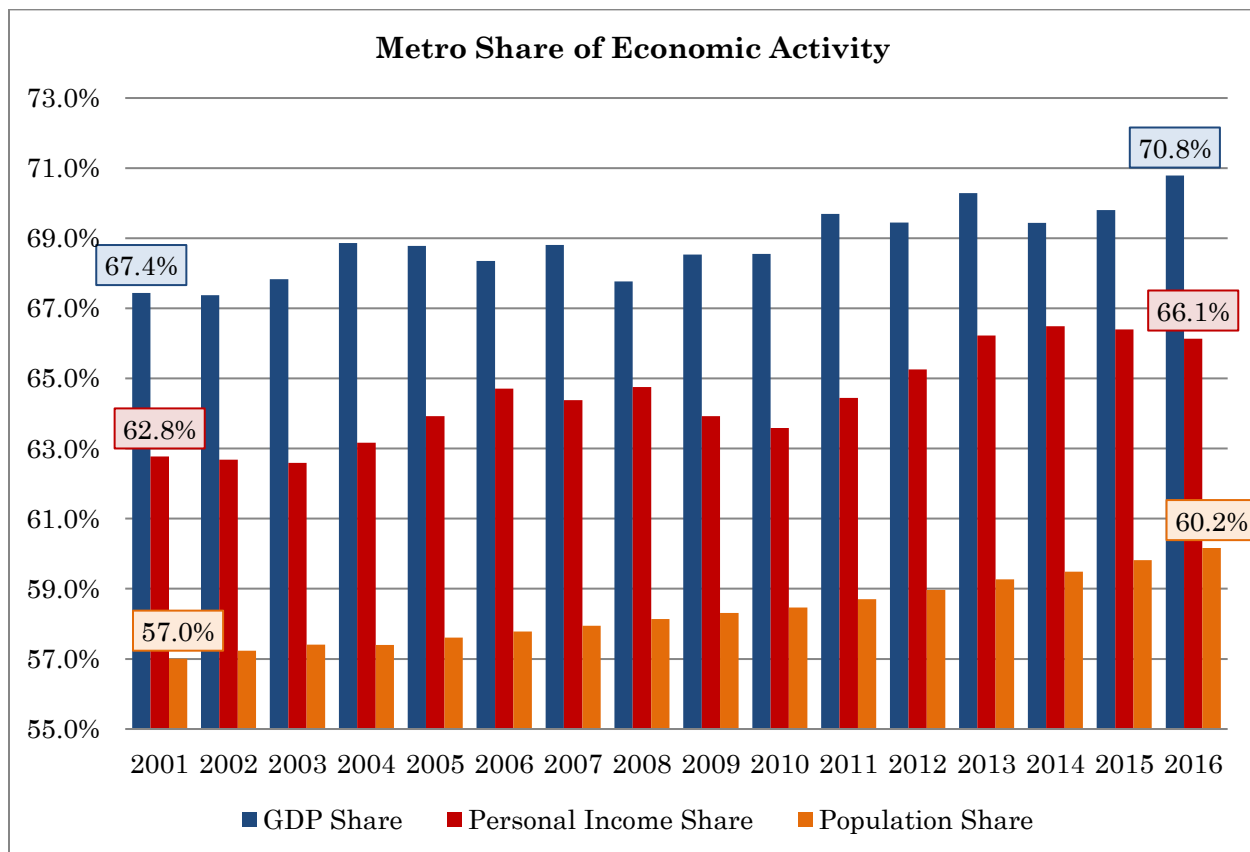


Figure 3: Economic Performance Index: OK, OKC, and Tulsa

The increasing economic importance of the state's primary metro areas is underscored in the accompanying graphic. In 2001, the Oklahoma City and Tulsa metropolitan areas accounted for 67.4% of the state's GDP, 62.8% of the state's personal income, and 57% of the state's population. Over the ensuing fifteen years, the metro share of each economic variable increased significantly. By 2016, the metro areas combined to account for 70.8% of the state's GDP, 66.1% of the state's personal income, and 60.2% of the state's population. In the near term these trends are expected to continue as population, income, and production is increasingly concentrated in the state's urban centers. Pushing back against these trends will require a deliberate economic development strategy that moves highly educated and skilled workers as well as productive capital back to the state's rural geographies.



*Figure 4: Metro Share of Economic Activity*

The crash in oil prices that began in the summer of 2014 propelled the state into multiple years of fiscal distress. The fiscal challenges were amplified by the broad weakness in the U.S. economy in 2016 extending both the depth and duration of the fiscal weakness. The effects of prior years' reliance on the use of one-time funds and appropriation cuts means fiscal challenges will linger into 2018 even as economic activity returns to full health.

The cuts have led to the neglect of developing a statewide amenity complex centered on formal and informal enhancements to education, transportation, and recreation. At the same time, the fiscal distress highlighted the difficulties of governing under economic duress at the state capitol. The combined effect is to transmit consistently negative signals to outside audiences about the attractiveness of the state to economic activity. The combination of amenity neglect and negative signals impedes economic development efforts at the state and local level. It is increasingly important that the state not only "solve the budget problem" but also be prepared to fill in the void created by the absence of the negative signal with a positive signal conveying the growing amenity complex being developed.

Finally, the fiscal debates in the state are often simplified to a "revenue problem" versus a "spending problem" argument. This discussion overlooks the reality that tax expenditures (targeted relief from the tax system in the form of exemptions, deductions, and credits) are a form of government spending. Because tax expenditures occur (largely) outside the formal appropriations process, they have a tendency to grow unchecked and be very difficult to reform as the receiving parties become invested in their continuance. It's possible – and even likely – that the state has a spending problem not in the sense that it spends too much but in the sense that it spends incorrectly. Regardless of what happens in the short run to address the state's budget problem, the state's fiscal practices would improve with a thorough cataloging and review of tax expenditures with the intent of shifting resources away from tax expenditure programs and towards the formal appropriations process.



## The U.S. Outlook

After a slow start to the year, U.S. economic activity gained momentum through 2017 with soon-to-be-released final readings expected to indicate annual growth near 2.5%. The U.S. economy remains reliant on the consumer for growth with household spending accounting for two-thirds of all economic activity. Personal consumption expenditures grew at a 2.6% annual rate in 2017 with similar growth expected in 2018. While 2.5% growth in 2018 provides a baseline for expectations, there are potentially significant economic forces – both positive and negative – that have yet to manifest in the data. Market watchers should be aware of and prepared for potential deviations from the baseline expectation.

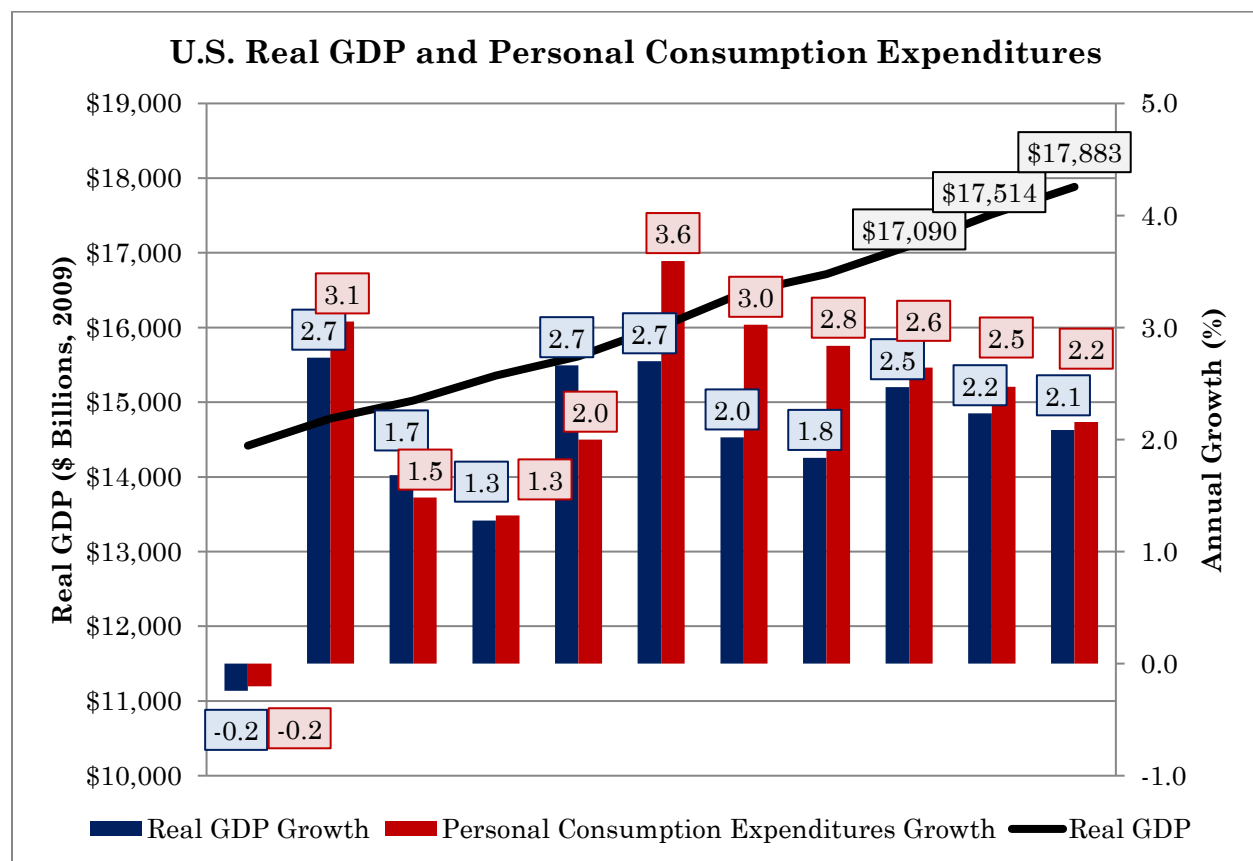


Figure 5: U.S. Real GDP

Household spending in the U.S. will be complemented in 2018 by both residential and nonresidential investment. On the residential side, housing starts are expected to strengthen in 2018 to a seasonally adjusted 1.26 million annual units with the value of residential investment growing by 3.4%. U.S. housing starts remain lower than their long-run average (1.5 million units) and well below the unsustainable peak that preceded the recent recession. New home construction trails new home demand in many parts of the country and likely has several years of growth ahead until a balance is reached. On the nonresidential side, recent tax reform and overall business optimism are expected to support growth in both industrial production and manufacturing capacity utilization, supporting the expectation the economic gains in 2018 will be spread broadly across all sectors of the economy.

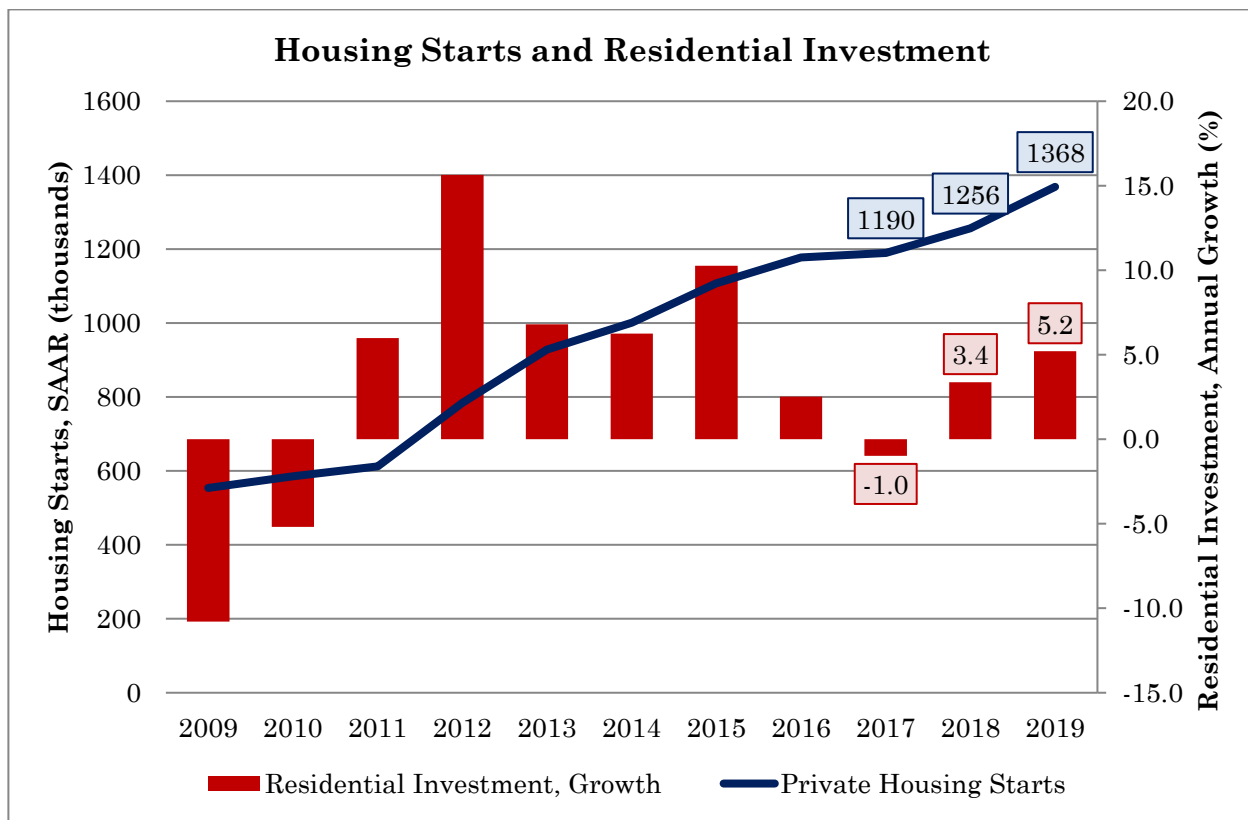
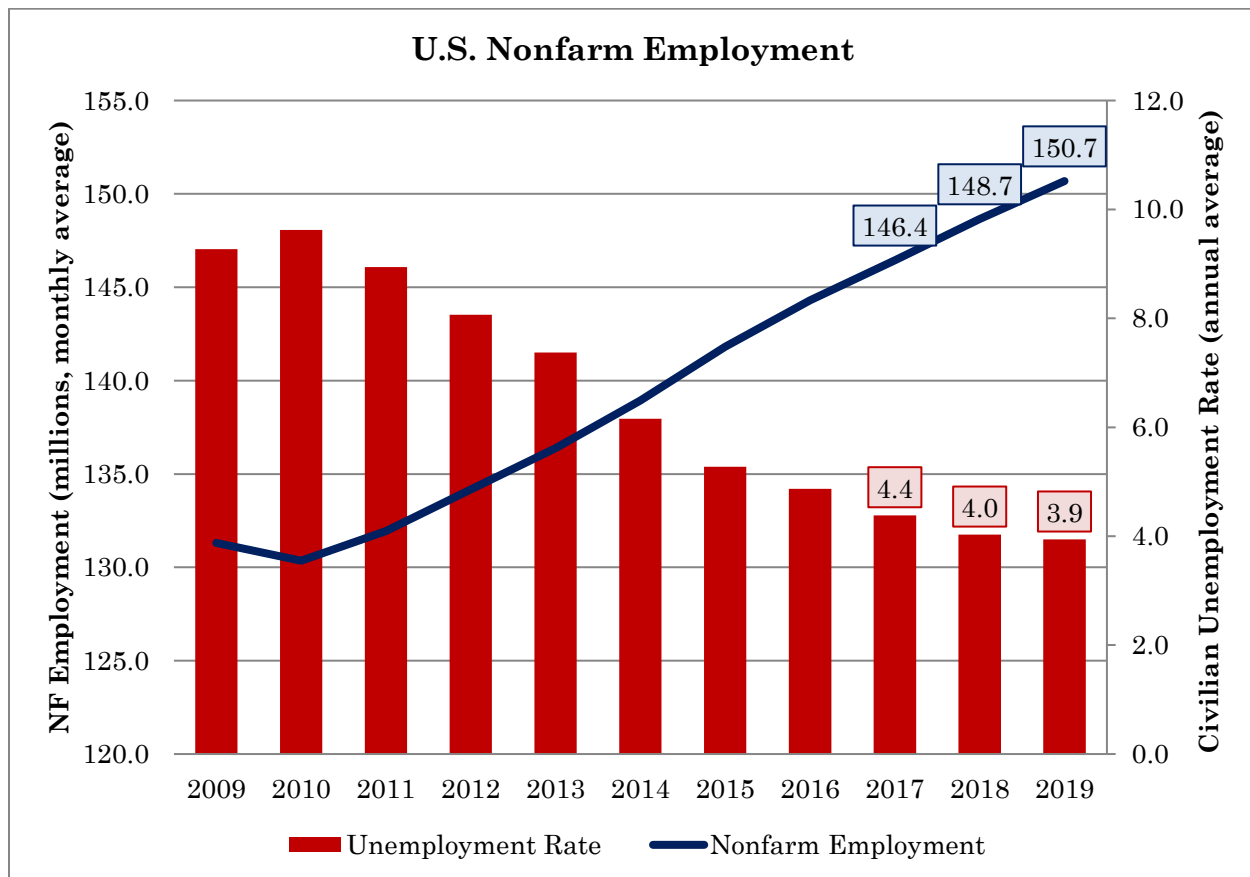


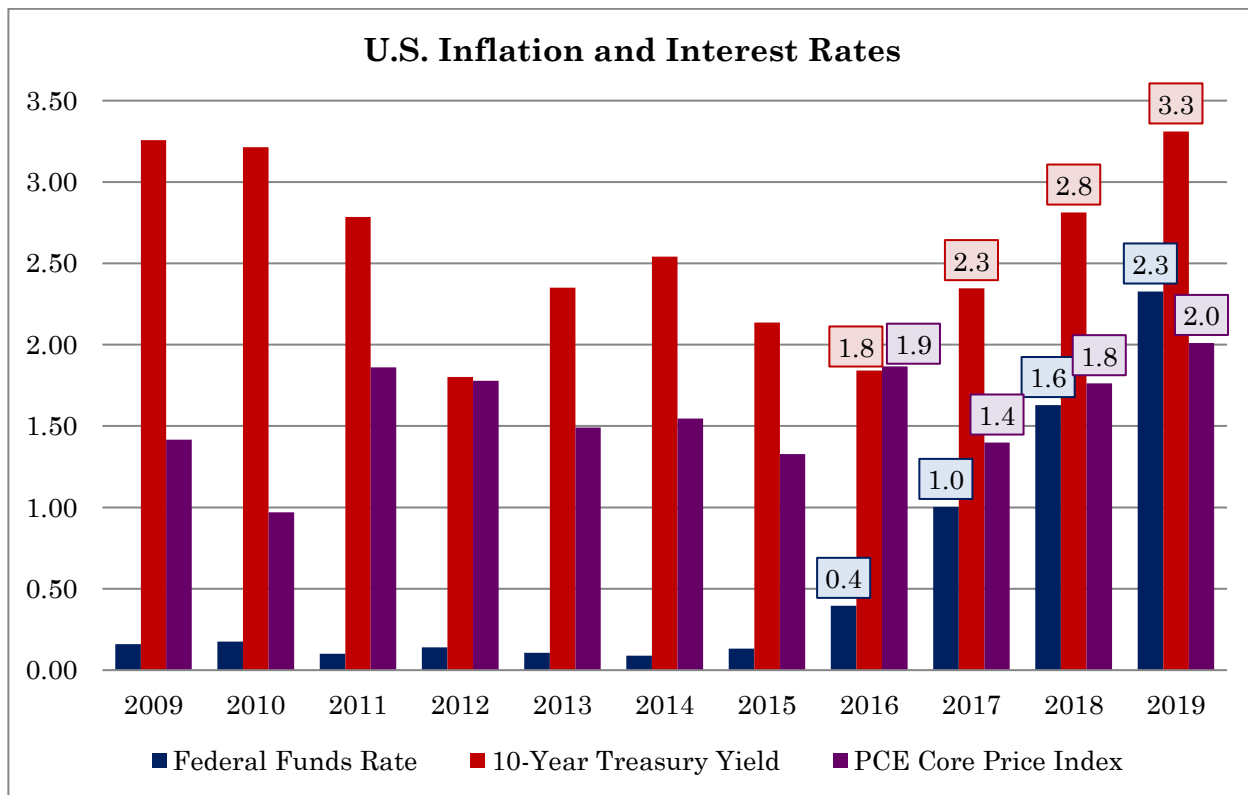
Figure 6: U.S. Housing Starts and Residential Investment

What the recovery to the Great Recession lacked in velocity it made up for in longevity. If the expected growth in 2018 materializes it will mark one of the nation's longest periods of economic expansion. The slow but persistent economic growth has allowed the labor market to improve at a noninflationary pace. U.S. nonfarm employment is expected to grow at a 1.5% annual rate in 2018 which corresponds to average monthly job creation of 185,000 positions. Unemployment rates are expected to slowly trend down as well, hovering around 4% for the year. Lingering lack of labor force participation appears to be allowing labor market tightening without stoking inflationary concerns. Expectations for 2018 are for wage gains to improve modestly, but not sufficiently to bring inflationary concerns to bear on monetary policy.



*Figure 7: U.S. Nonfarm Employment*

The Federal Reserve took several steps towards normalizing policy in 2017 with multiple increases in the short run federal funds rate and implementing a strategy to reduce the size of its balance sheet. We expect 2018 to proceed similarly with policymakers opting for at least two, and likely three, increases in the federal funds rate while allowing maturing assets on the balance sheet to roll off by not re-investing the principal. Monetary policy stands out as an area worth watching in 2018 for two reasons. First, the administrative and ideological makeup of the fed could be significantly overhauled with the recently announced change in the Federal Reserve chair (from Janet Yellen to Jerome Powell) as well as the potential to appoint several additional Federal Reserve governors. Second, while the expansion of the fed's balance sheet accomplished its goal of constraining long-run interest rates and providing liquidity to the financial sector without destabilizing real economic activity, it's not clear that the reverse will necessarily hold true.



*Figure 8: U.S. Inflation and Interest Rates*

## The Oklahoma Economic Outlook

The dual recovery in economic activity and crude oil price returned the state's economy to growth in 2017. General economic strength is expected to continue into and through 2018 with the state's economy as measured by real gross state product growing by 3.6%. Growth in 2018 will return the state's economy to the \$180 billion level established in 2015. Sustained growth through the end of the year will leave the state approaching a \$200 billion economy.

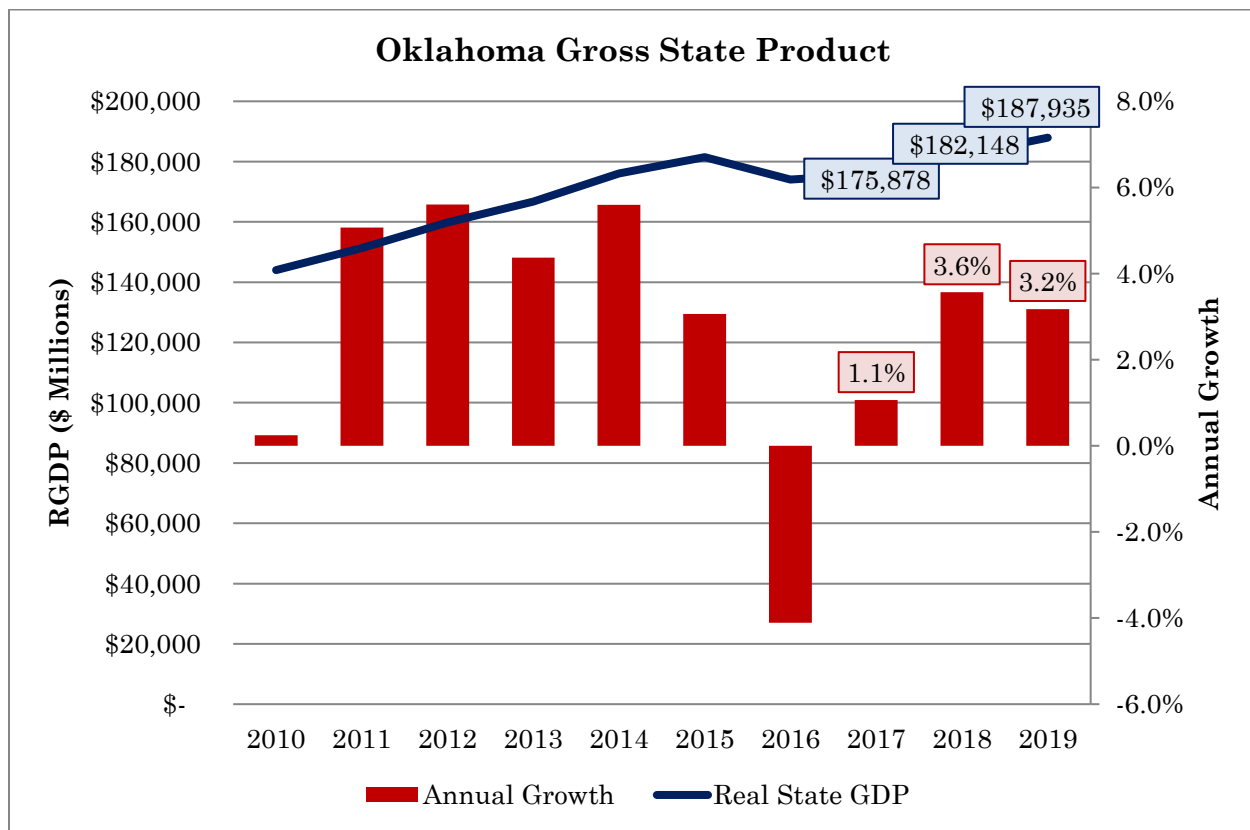


Figure 9: Oklahoma Real Gross State Product

Consistent population growth stalled in 2016 with the general economic weakness. Population growth is expected to resume in 2017 at a 0.7% annual rate before declining to just below 0.7% in 2018. The national discussion on immigration as well as global economic changes could impact population growth rates but are not expected to derail population changes sustained by broad geographic patterns. It remains the case that population growth is not uniformly distributed across that state, but rather is the result of population gains in Oklahoma City and Tulsa offsetting population losses in many of the state’s rural counties.

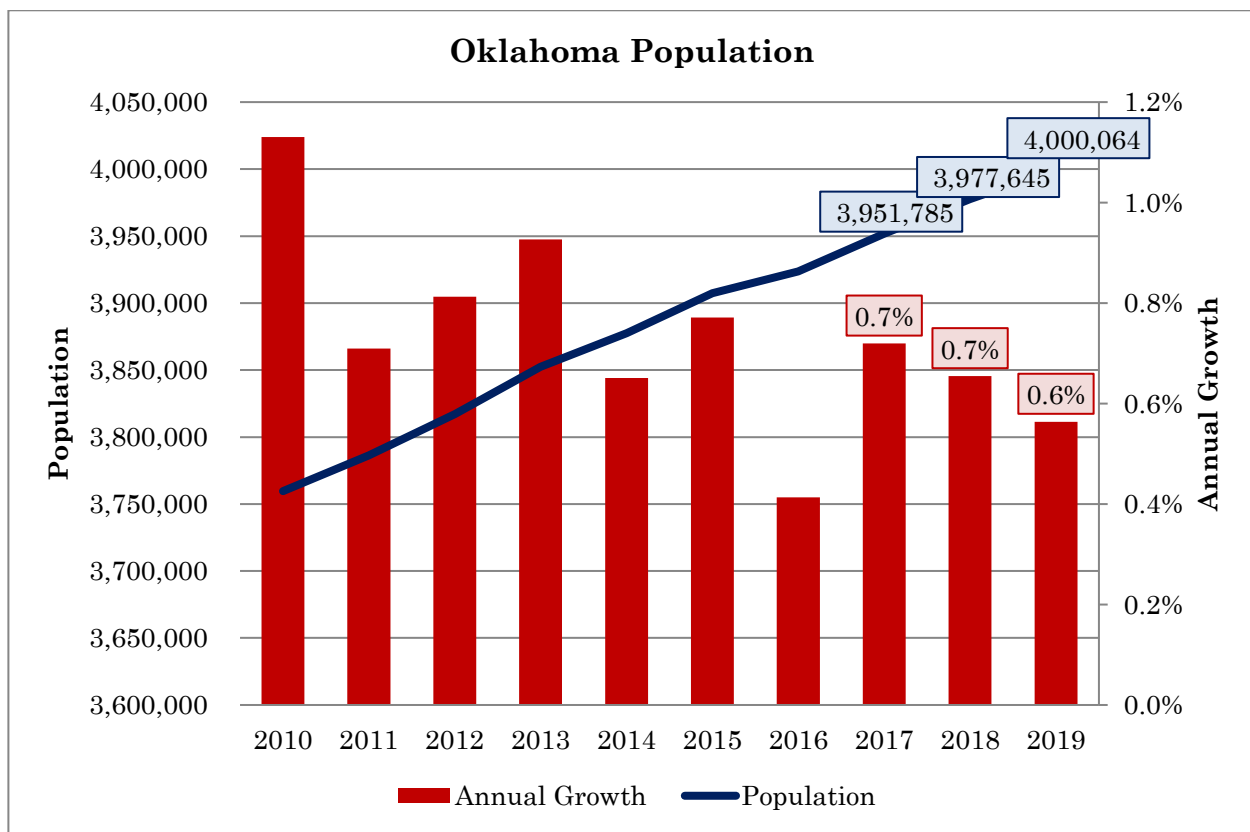


Figure 10: Oklahoma Population

Per capita income contracted in 2015 and 2016 as the state slid into a regional recession. Declining economic activity suppressed wage gains while collapsing oil prices hit non-labor sources of income. The recovery in both commodity prices and economic activity is expected to return per capita income growth to Oklahoma in 2017. Significant gains in commodity prices are not expected in 2018 but price levels are expected to be sufficient to support broad economic and income growth. Per capita income is expected to grow by 6.4% in 2018 and 5.4% in 2019 as state per capita income breaks the \$50,000 barrier. While growth is expected widespread across the state, the sharpest gains are expected from the Tulsa MSA.

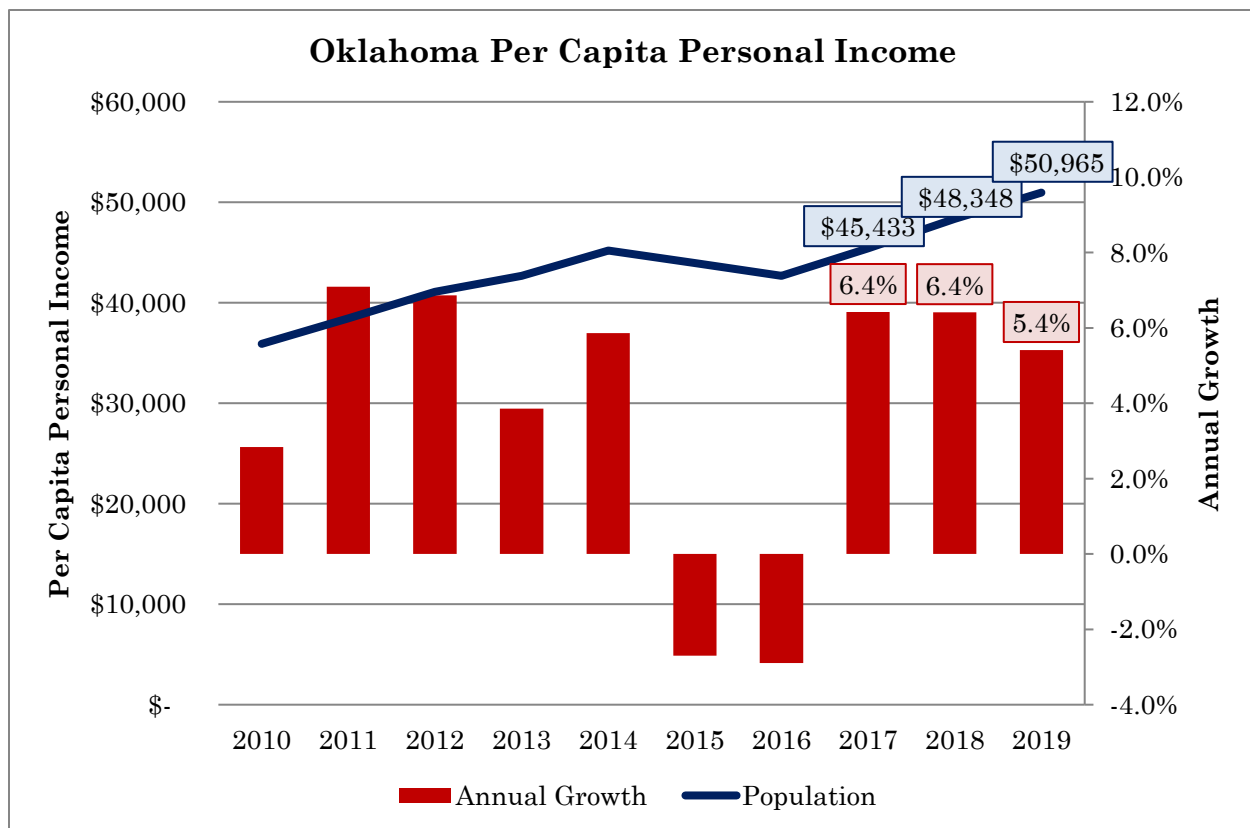


Figure 11: Oklahoma Per Capita Income

Nonfarm employment in the state contracted in 2016 as the state’s labor market succumbed to the dual pressures of low oil prices and a weak U.S. economy. The labor market began to turn toward growth in late 2016 with most of the state seeing a return to growth in the first half of 2017. Nonfarm employment gains of 0.6% in 2017 are expected to accelerate to 1.3% in 2018 and 1.0% in 2019. If the expected growth materializes the state’s nonfarm payroll employment will cross the 1.7 million worker threshold in 2019.

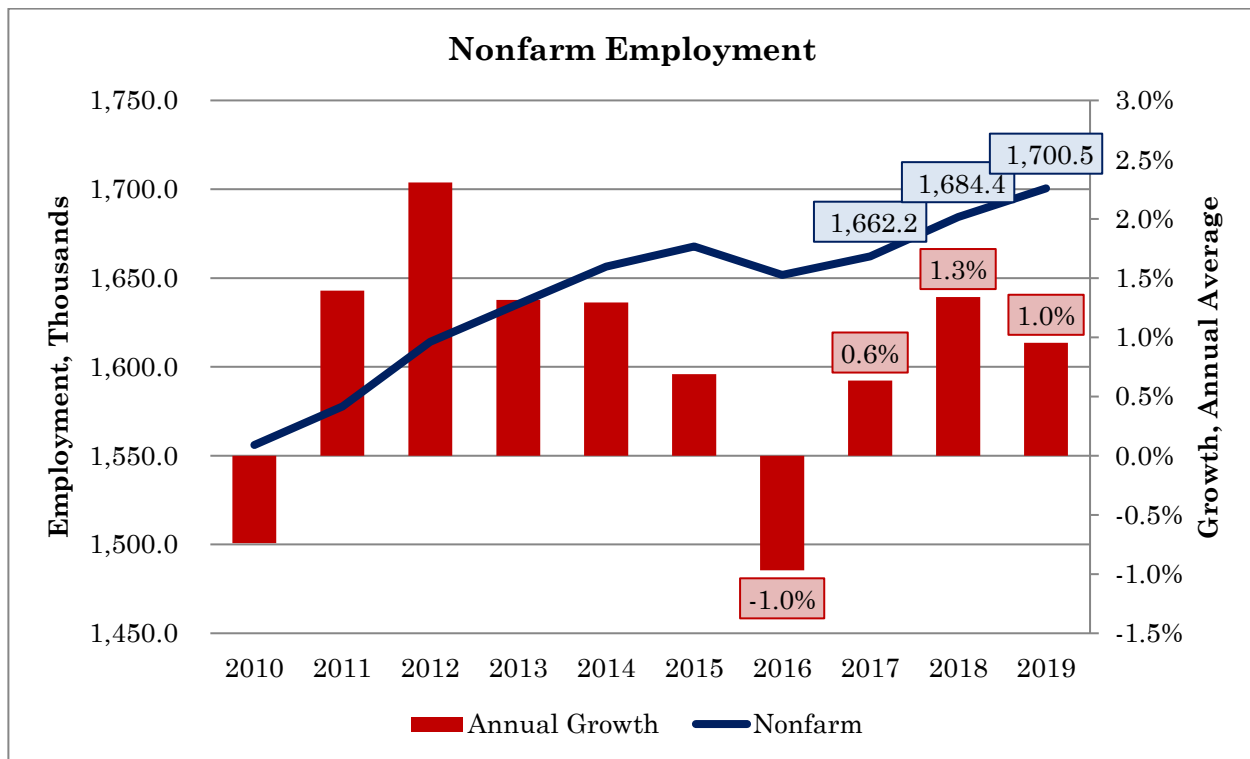


Figure 12: Oklahoma Nonfarm Employment



Oklahoma private sector employment is expected to follow a growth path similar to nonfarm employment. Private employment crossed 1.31 million in 2015 before contracting by 1.4% in 2016. Modest gains in 2017 failed to return the state to 2015 levels of employment. Employment gains are expected to accelerate into 2018 at 1.7% as levels pass the previous 2015 high. Growth of 1.1% is anticipated in 2019 as private sector employment in the state approaches 1.35 million.

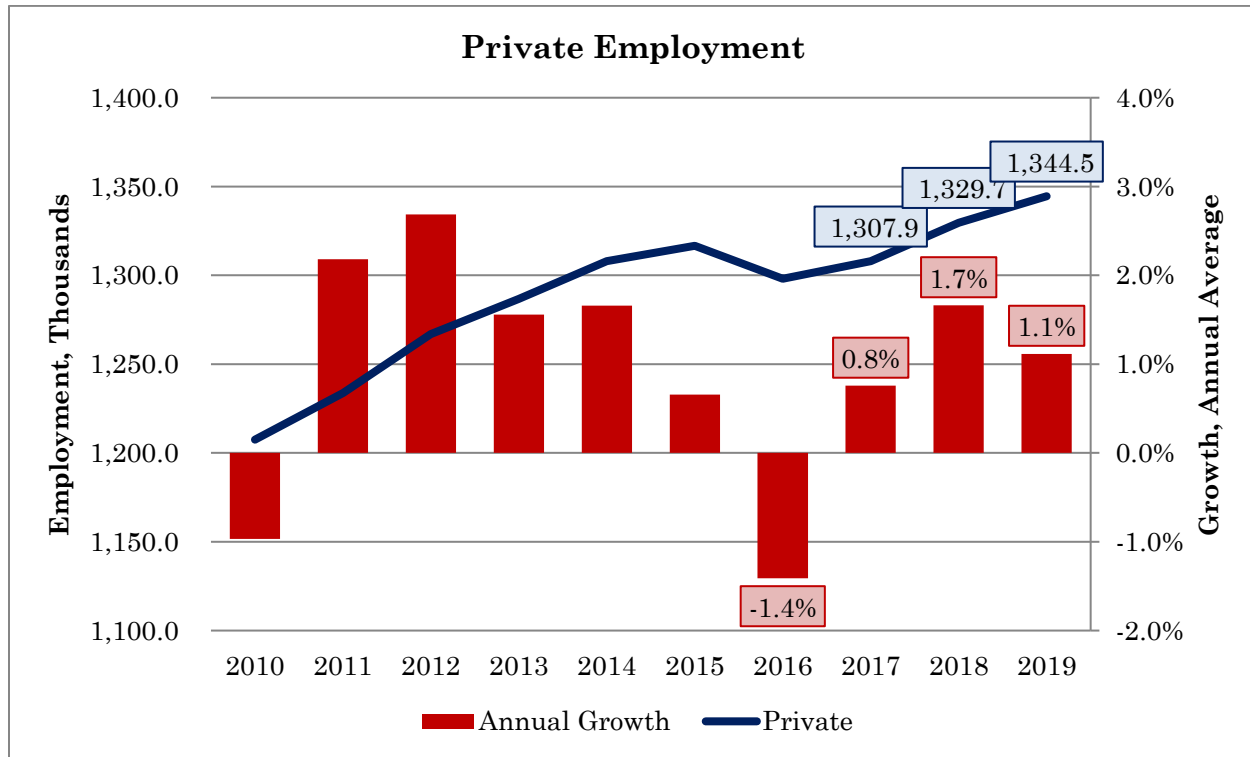


Figure 13: Oklahoma Private Employment

Oil and gas payroll employment in the state peaked in 2014 with monthly payroll estimates averaging 62,200 workers in the industry. The price collapse that started in the summer of 2014 reversed the pattern of job gains in the industry as average monthly payrolls in 2016 averaged only 44,000. The industry resumed hiring at a modest pace in 2017 with average employment growing at a 4.7% pace. Employment growth is expected in 2018 and, if market and U.S. conditions cooperate, into 2019. Importantly, the price environment in the energy industry has incentivized both efficiency gains in production as well as a cautious attitude towards future production as market prices hover just above critical break-even investment levels. We expect employment growth in the industry to taper a bit in 2019 and hold at levels below the 2014 peak for some time.

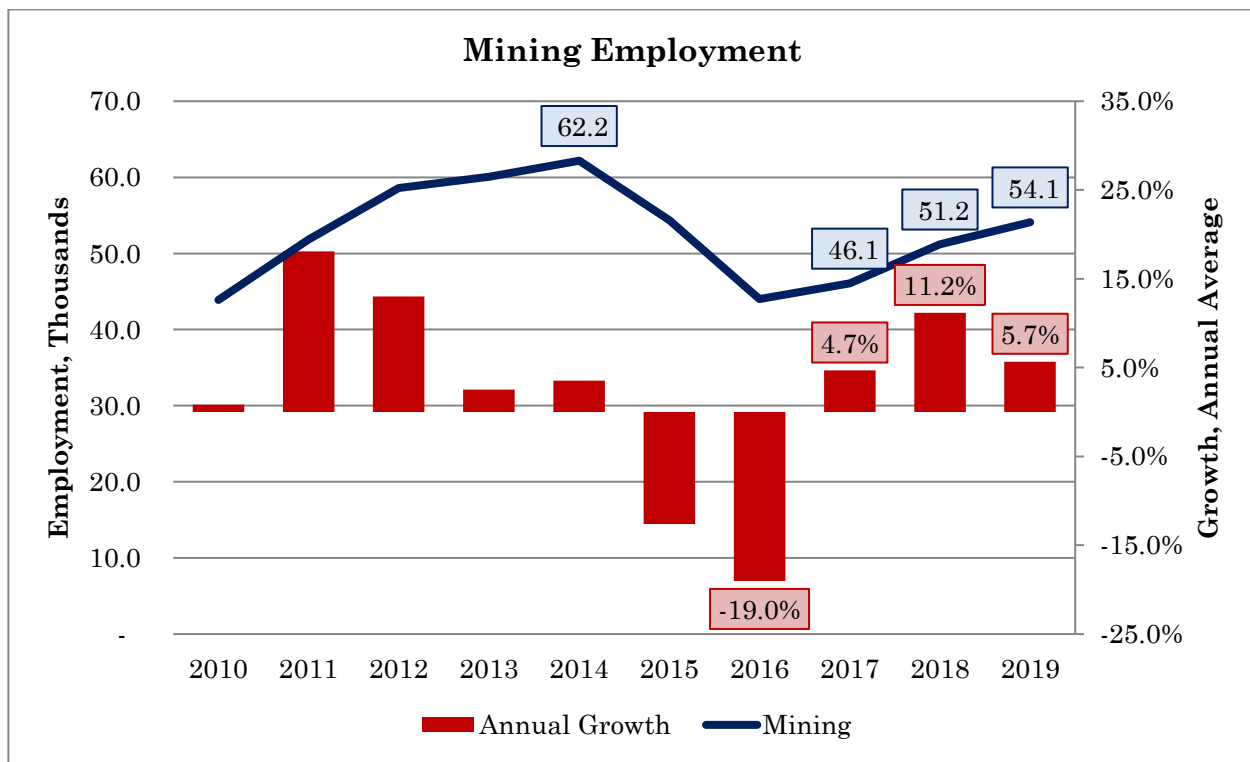


Figure 14: Oklahoma Mining Employment

Manufacturing activity in the state is strongly correlated to oil and gas activity as refining and component parts manufacturing are important segments of the state's manufacturing base. Manufacturing contracted by 6.1% in 2016 before posting modest gains in 2017. Employment growth is expected in 2018 as a modest recovery continues. Manufacturing employment gains in 2017 and 2018 are not going to be sufficient to regain all the jobs lost in 2015 and 2016. Baseline expectations are for manufacturing employment to establish a "new normal" consistent with reasonable but not boom levels of oil and gas activity. As with mining employment, it is expected to be several years before employment in the industry returns to 2014 peak levels.

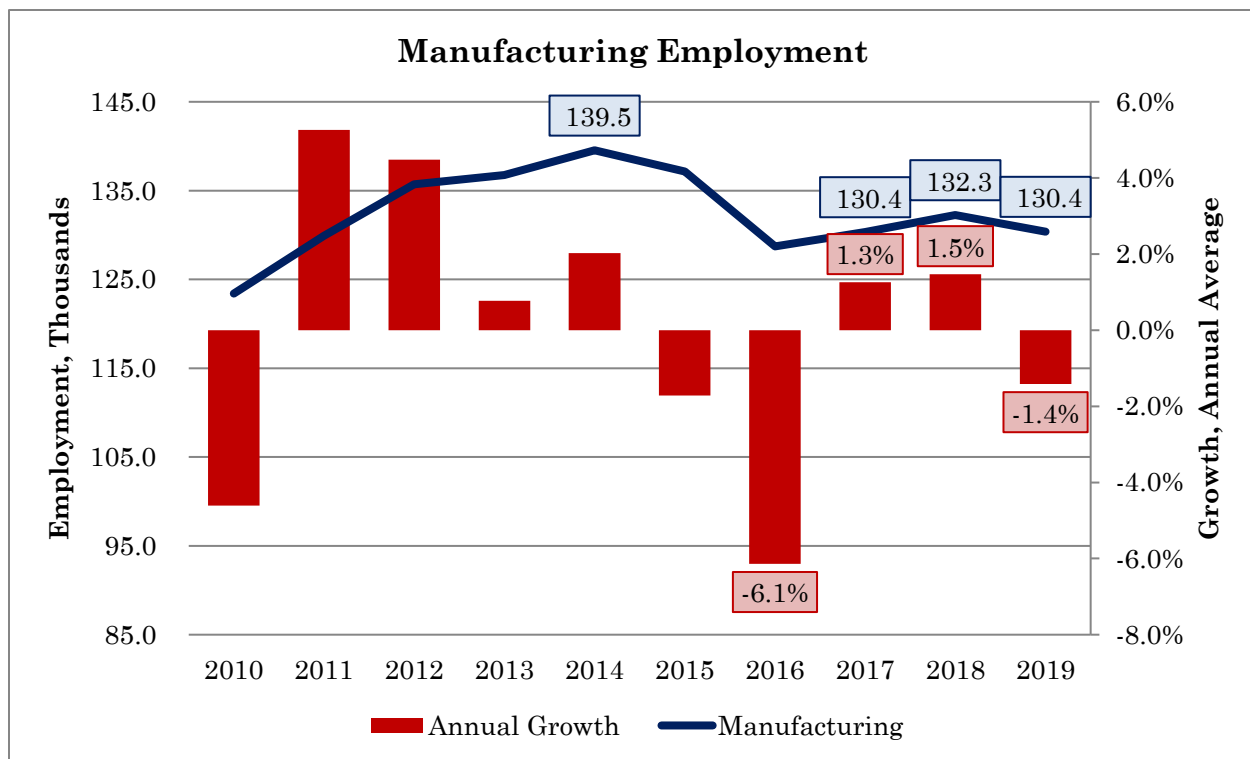


Figure 15: Oklahoma Manufacturing Employment

Oklahoma retail employment struggled in 2017 contracting by 1.8%. Nationally, it remains the case the brick and mortar retail is overbuilt and it will take years to work through the oversupply of retail real estate. That reality notwithstanding, the discussion surrounding the death of retail is overstated. The combination of online retailing and transitioning to a sustainable sales/ft.<sup>2</sup> will slow the growth of retail generally, making successful opportunities more difficult to identify. Oklahoma retail employment is expected to grow in 2018 and 2019 in line with the growth experienced in the 2011 to 2013 period. Average monthly retail employment is expected to grow at 1.4% and 1.5% respectively in 2018 and 2019 reaching more than 186,000 retail workers in 2019.

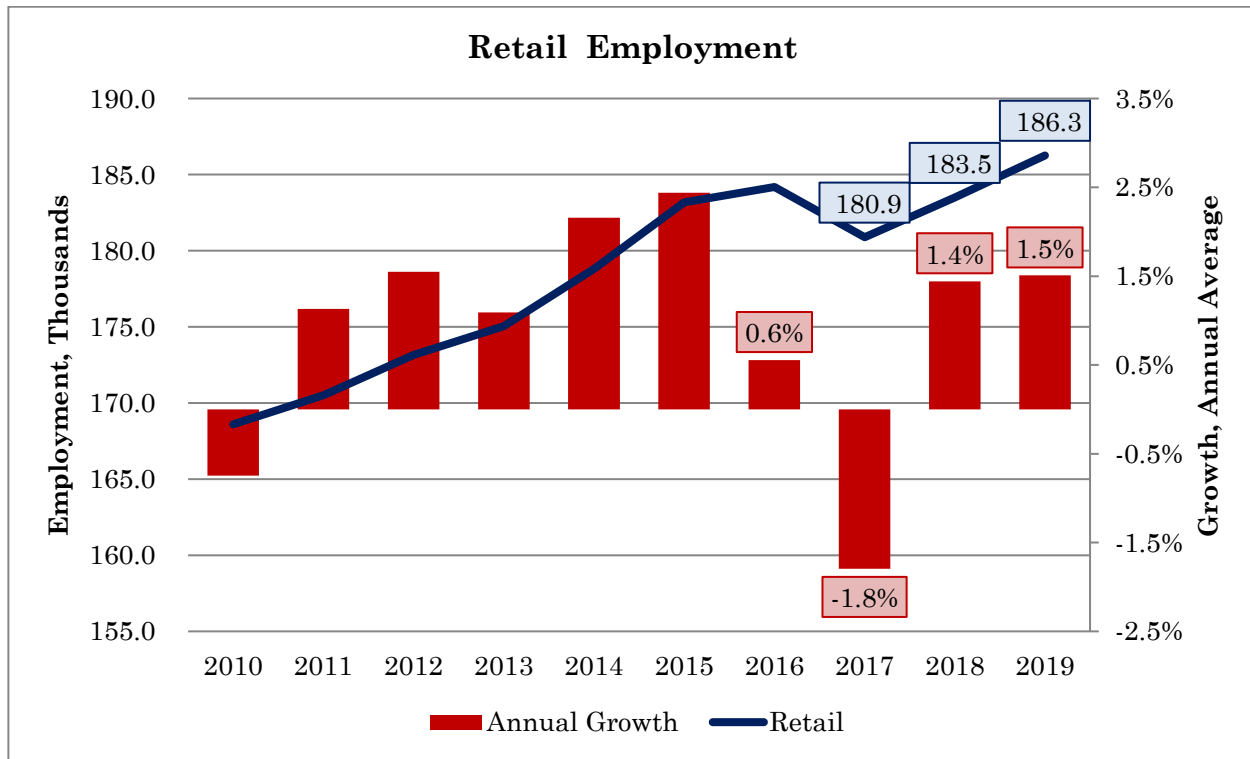


Figure 16: Oklahoma Retail Employment

Health employment in the state grows unevenly in response to population growth and aging demographics. After posting strong gains in 2015, 2016, and 2017, we expect gains to moderate in 2018. Employment in the sector is projected to grow by 0.6% in 2018 and 0.7% in 2019 topping 220,000 workers in the industry. In the long-run, health care demand will drive sustainable job gains in the sector.

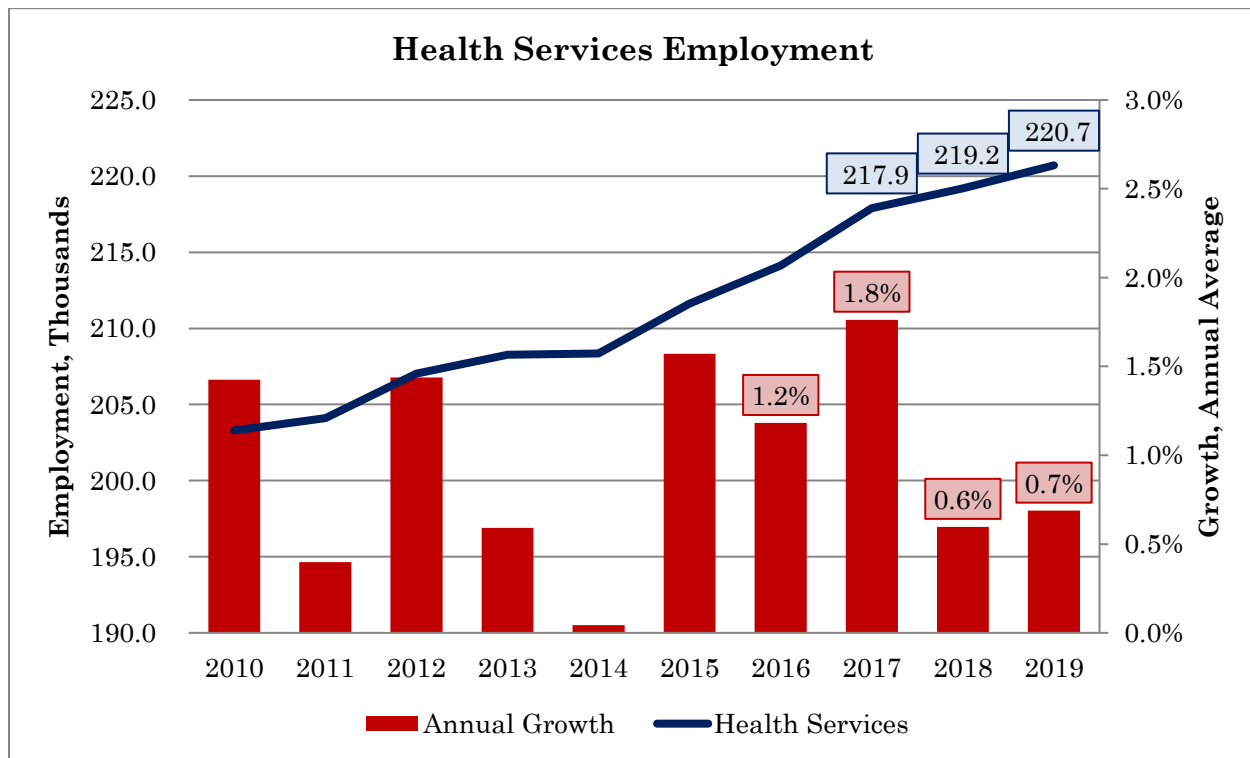


Figure 17: Oklahoma Health Services Employment

Oklahoma leisure services posted strong growth from 2011 through 2015 with annual growth rates exceeding 2.5% every year. Gains in the industry are driven by growth in the food services and accommodations subsector. Employment gains in leisure services are heavily dependent on population income gains with the weakness in 2016 and 2017 easily identified in the data. The continuing economic recovery in 2018 is expected to accelerate growth in leisure services with gains of 1.8% in 2018 and 2.3% in 2019.

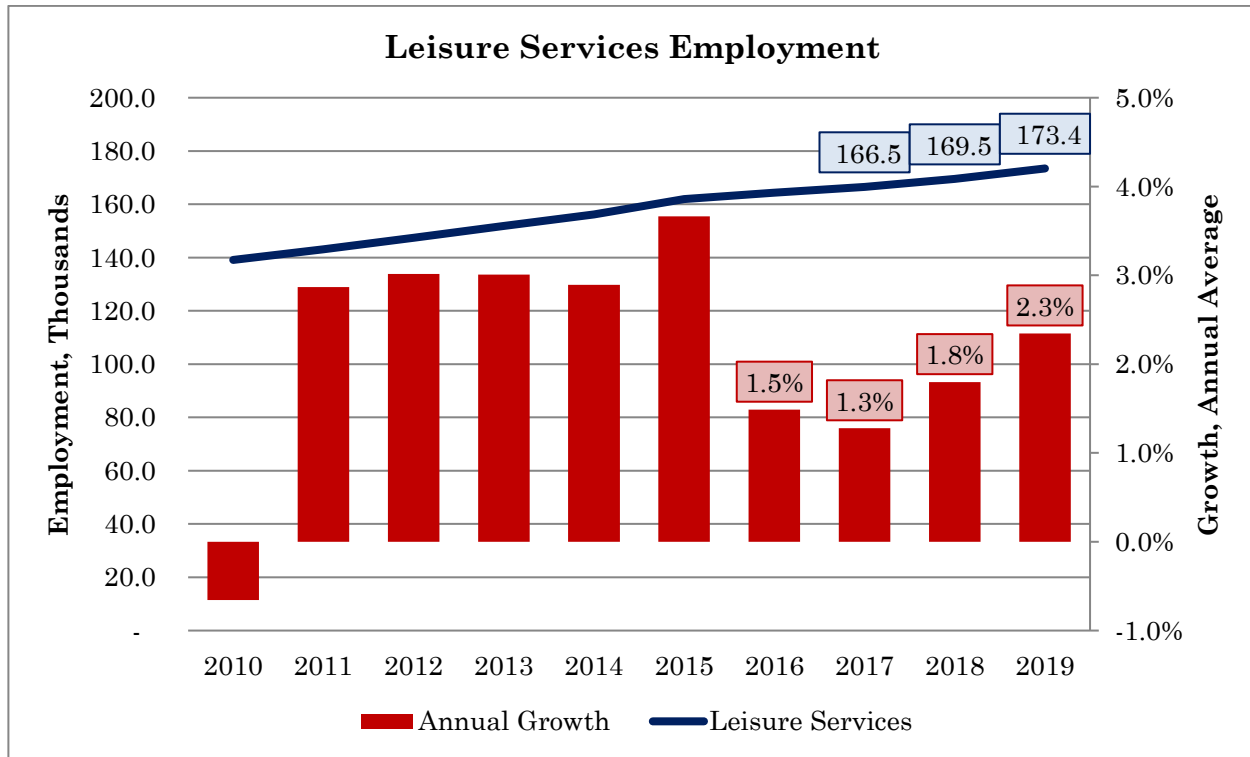


Figure 18: Oklahoma Leisure Services Employment

## The Oklahoma City Economic Outlook

Oklahoma City gross metro product grew by 0.9% in 2017 after contracting 2.2% in 2016. In the five-year period preceding the contraction in 2016, real metro area economic activity grew at an average annual rate of 3.7%. The economic recovery is expected to continue into 2018 and 2019 with growth rates of 2.1% and 3.1% respectively. Growth in the Oklahoma City (accompanied by growth in Tulsa) will extend the long-run trend of concentrating economic activity in the state's urban centers. Oklahoma City gross metro product is likely to approach \$70 billion in 2019 representing nearly 40% of the state's economy.

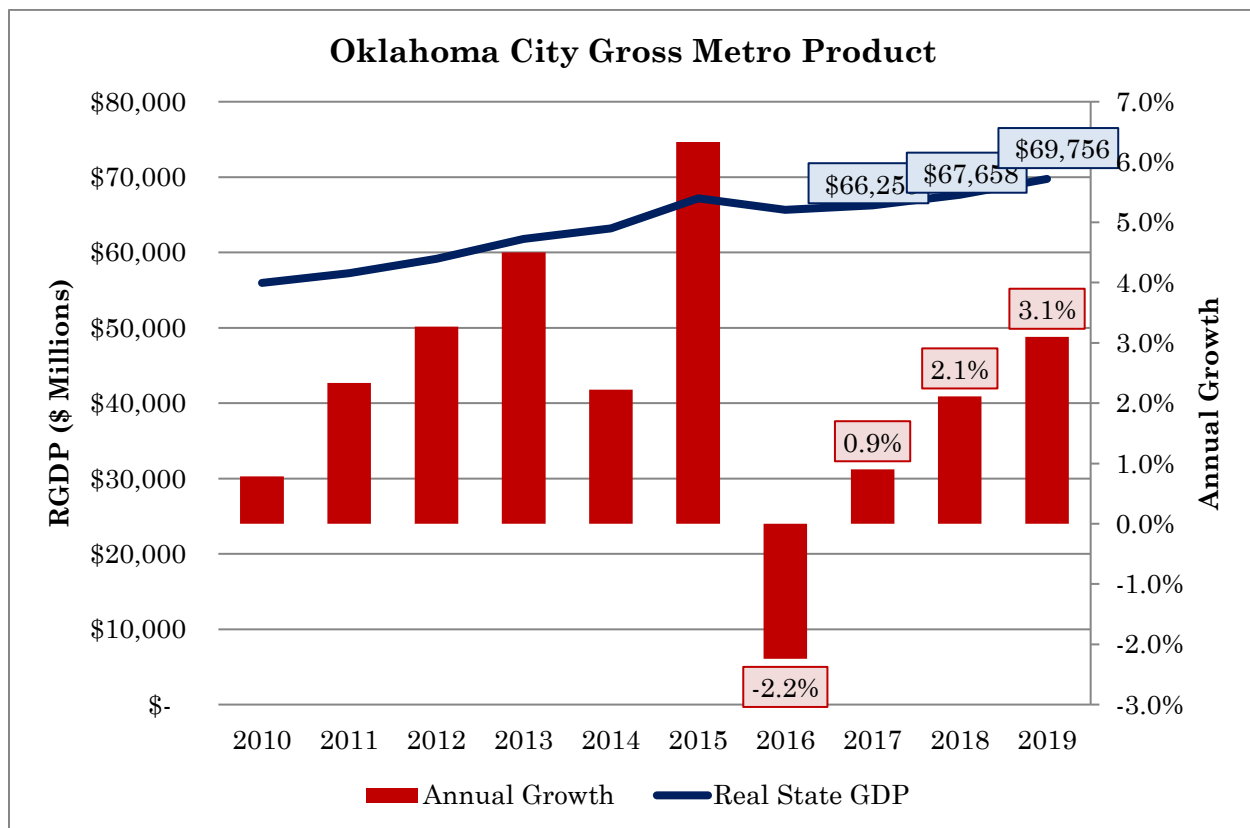


Figure 19: Oklahoma City Gross Metro Product

Oklahoma City consistently experiences the fastest population growth rates of any area of the state. The amenity development of the urban core combined with the city’s location on the rapidly developing I-35 corridor will continue to support potentially transformative population growth. Growth rates are expected to hold near annual rates of 1.4% with the city’s population surpassing 1.4 million people in 2018. We expect Oklahoma City population growth rates to approach a 2% annual rate in the long run offering both economic opportunities and development challenges for the city.

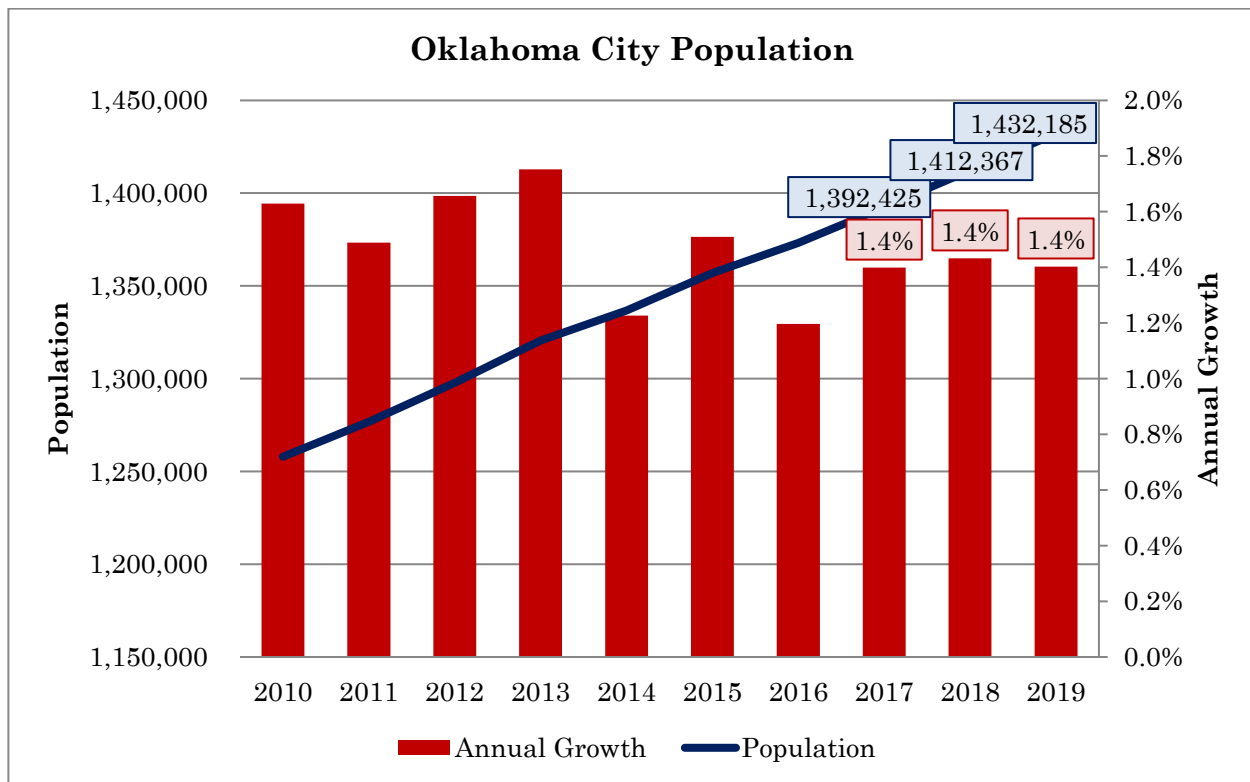


Figure 20: Oklahoma City Population



Oklahoma City's economic transition is bringing both high income positions and low wage jobs supporting the city's population growth. The combined effect is consistent growth in per capita personal income. Per capita income is estimated to have grown by 2.5% in 2017 to \$45,775. Baseline expectations look for per capita income to approach \$48,000 in 2019 after growing at a 2.1% rate in 2018 and 2.2% pace in 2019.

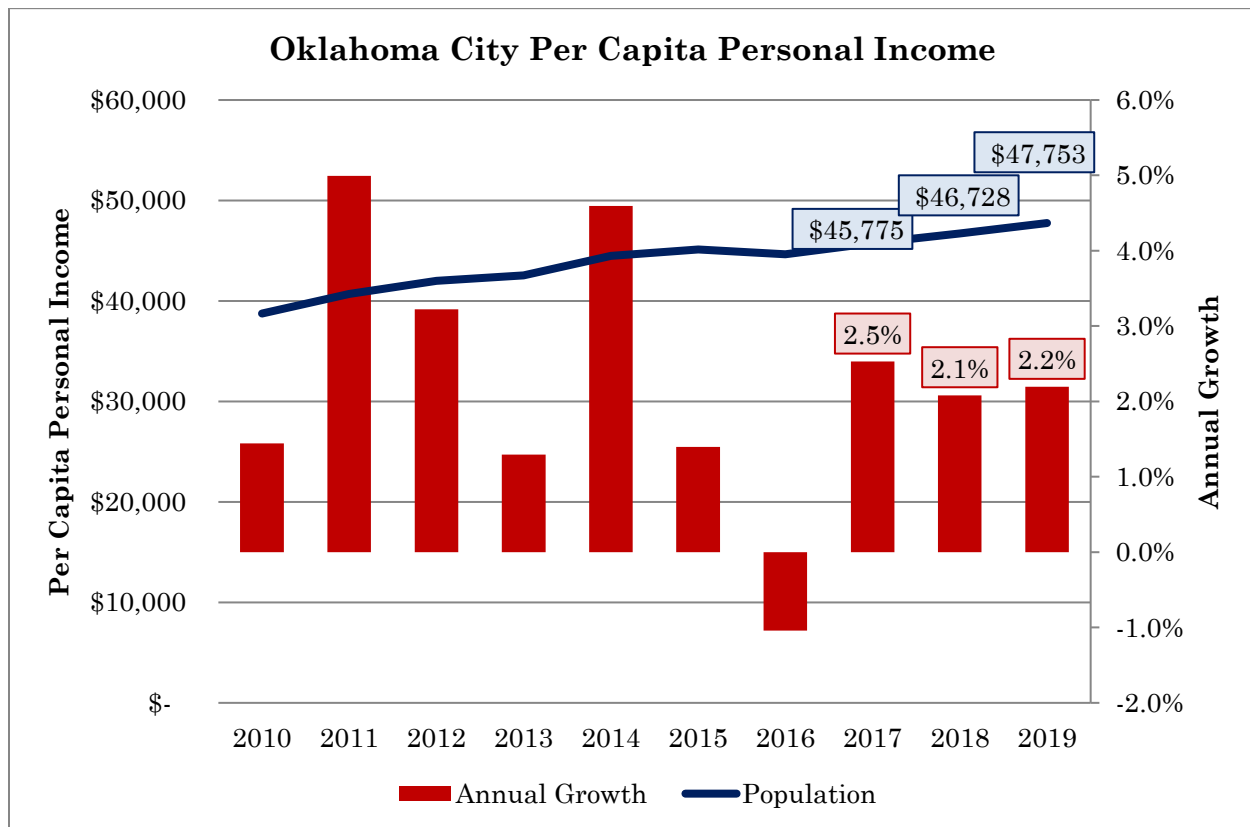


Figure 21: Oklahoma City Per Capita Income

In the five years between emerging from the great recession and the 2016 local recession, Oklahoma City nonfarm employment averaged annual growth of 2.1%. The employment growth reflected the influences of geography, strong local economic conditions, and near trend growth nationally. Oklahoma City continues to benefit from geography and both local and national economic conditions are improving. The result will be nonfarm employment growth rates moving back towards the city’s post-recession trend. Baseline expectations are for nonfarm employment growth of 1.4% in 2018, increasing to 1.8% growth in 2019 and average monthly nonfarm payrolls exceeding 650,000 workers.

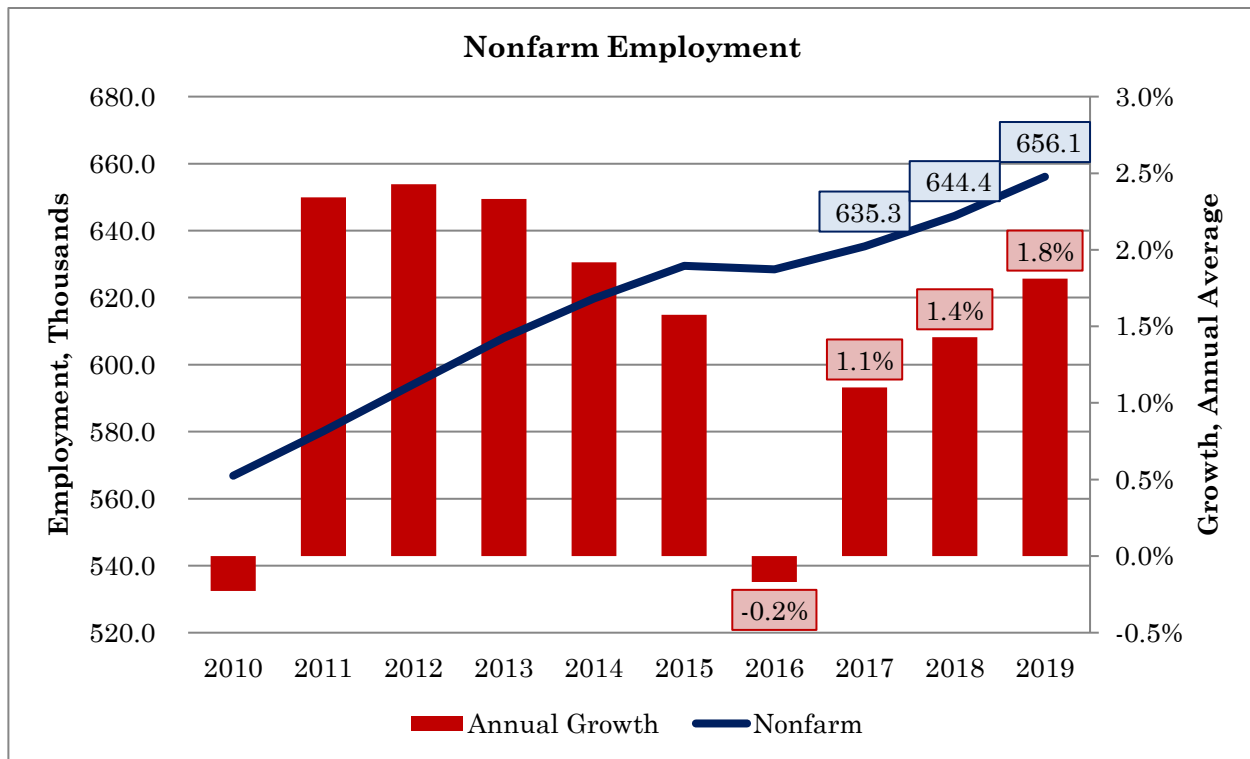
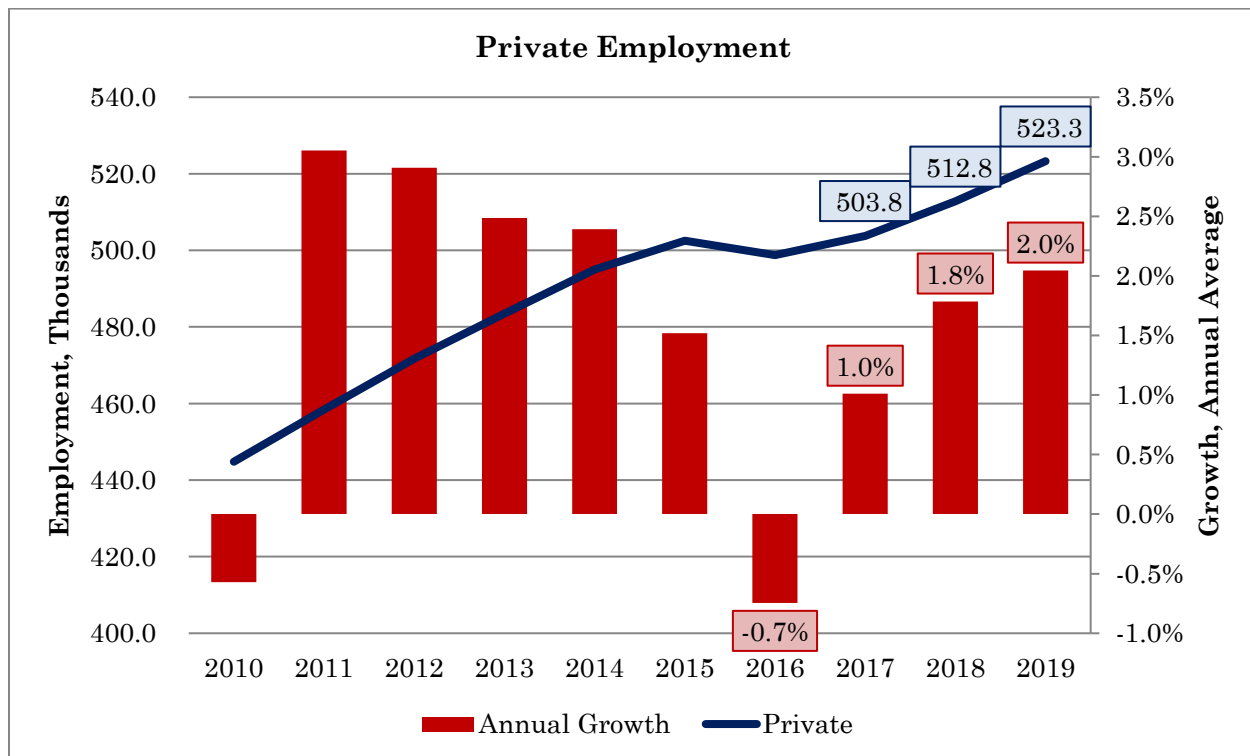


Figure 22: Oklahoma City Nonfarm Employment

Patterns in private sector employment will parallel those of nonfarm employment. The city's post-recession average annual growth in private sector employment is a robust 2.5% fueled by geography, region-specific strength, and national growth. This mixture of economic forces will fuel strong growth again in 2018 and 2019 that will fall just short of the high bar set in the post-recession period. Baseline expectations call for 1.8% and 2.0% growth in 2018 and 2019 respectively with private sector employment approaching 525,000 workers by the end of 2019.



*Figure 23: Oklahoma City Private Employment*

Oklahoma City oil and gas employment contracted sharply following the price collapse that began in the summer of 2014. The industry transitioned to recovery in 2017 with modest job losses early in the year offset by job gains in the second half of the year. The combined effect was average monthly payrolls in 2017 unchanged for the average of 2016. Baseline expectations anticipate average monthly mining payrolls to increase 9.8% in 2018 and 6.6% in 2019 to an annual average of 18,300. The broad pattern discussed at the state level is present in Oklahoma City with models anticipating efficiency improvements to limit employment growth to levels below the previous peak for several years to come.

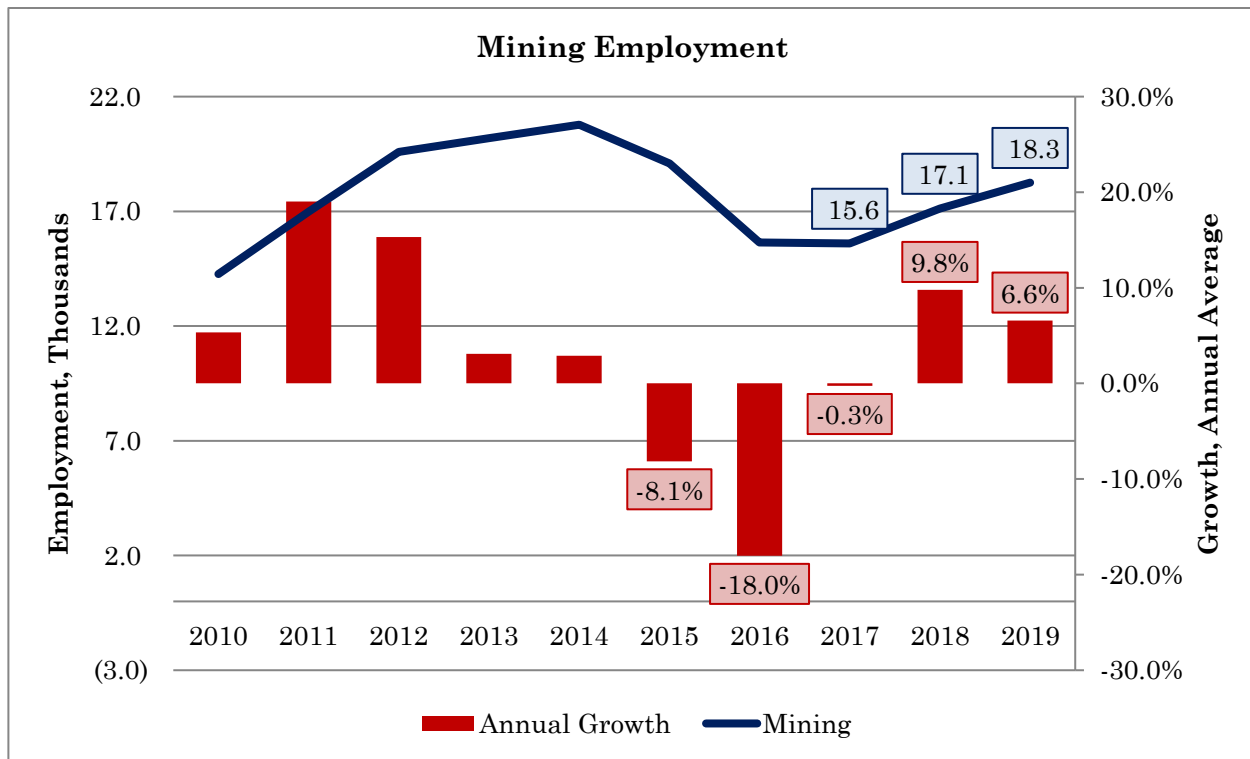
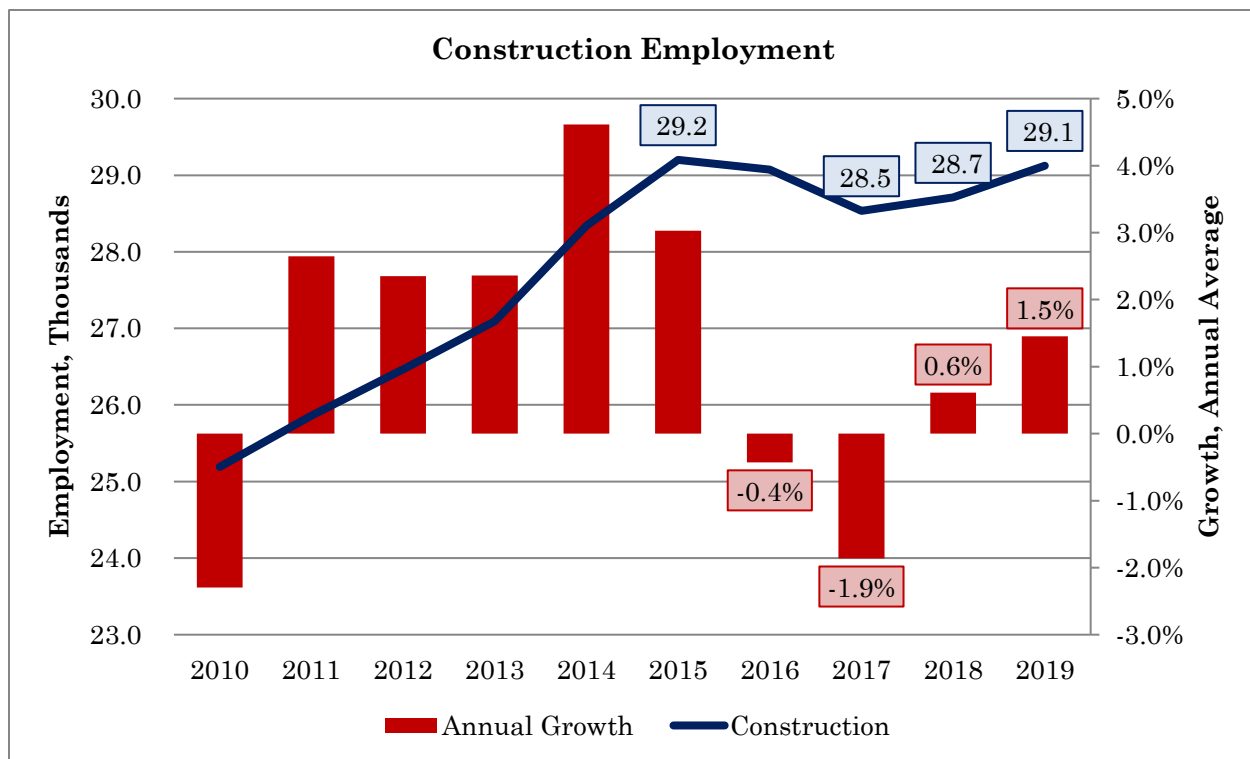


Figure 24: Oklahoma City Mining Employment

Construction employment moves not only with local economic conditions but also with large development and construction projects. These discrete influences over construction employment are obviously not reflected in the historical data series and no attempt is made to include them in the forecast. Instead, construction forecasts can be interpreted as reflecting the portion of industry employment growth attributable to the relationship with the underlying economy. Construction employment is projected to grow 0.6% in 2018 with growth rates increasing to 1.5% in 2019. With significant public and private announced projects set to begin in 2018 we anticipate realized job gains in the sector to exceed the baseline gains contained in the forecast.



*Figure 25: Oklahoma City Construction Employment*

Oklahoma City’s recent and brief manufacturing renaissance was interrupted by the recent downturn with manufacturing employment contracting every year since 2015. Manufacturing employment in the city peaked in 1998 with 55,000 employees before promptly entering a largely uninterrupted decline through 2010. Manufacturing employment is expected to recover some of the recent job losses in 2018 and 2019 with annual growth rates of 2.5% and 4.7%. Less clear is whether a full manufacturing renaissance indeed materializes or if this decade serves only to slow the pace of industry contraction.

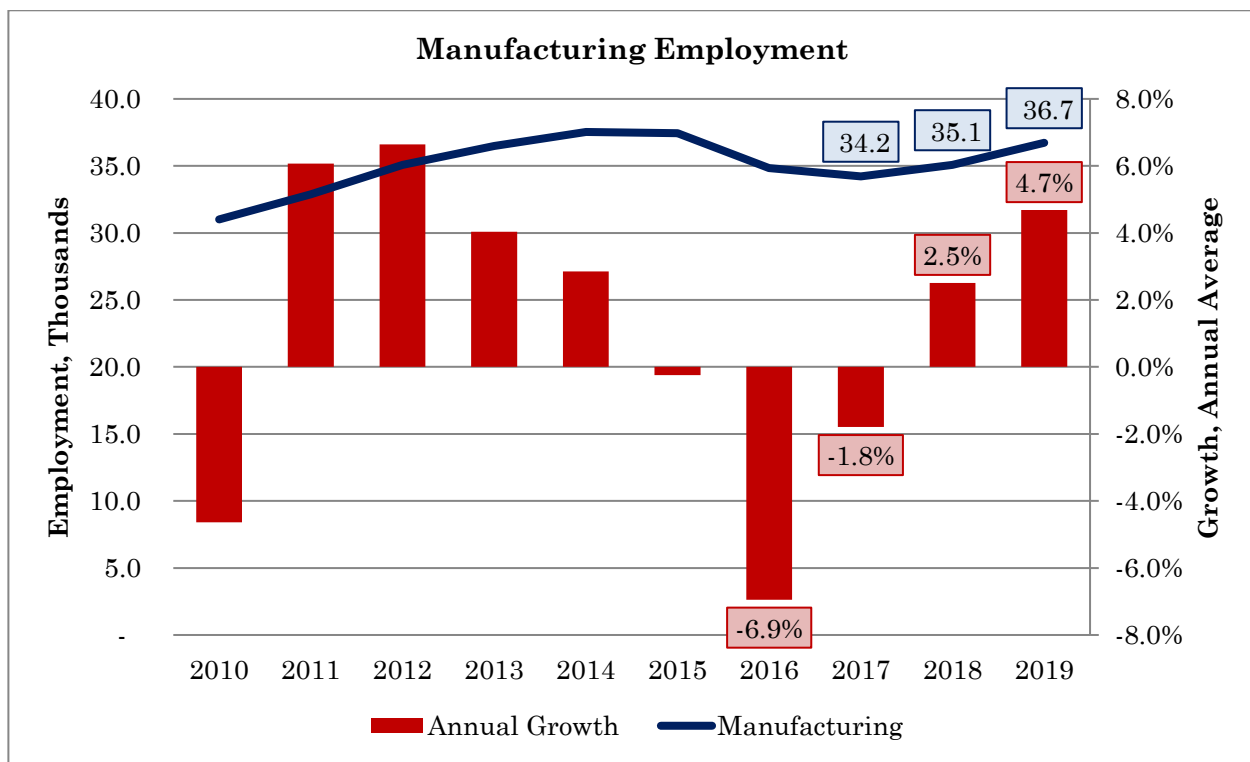


Figure 26: Oklahoma City Manufacturing Employment

Oklahoma City retail employment has grown in concert with local population and income gains. Employment gains in the industry slowed in 2016 and 2017 with expectations of another year of modest growth in 2018. Retail job gains are expected to pick up in the second half of the year and into 2019 with industry employment passing 71,000 positions.

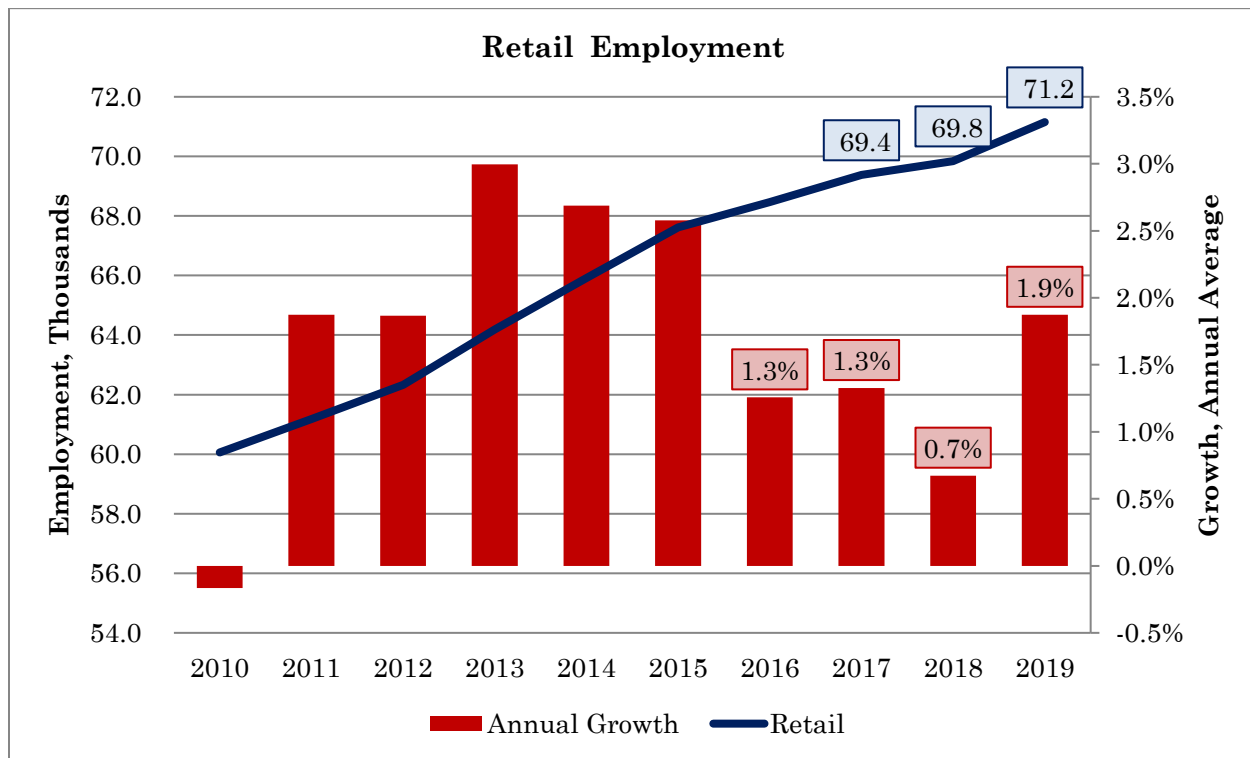


Figure 27: Oklahoma City Retail Employment

Professional and business services employment provided unexpected strength in 2017 with average monthly payrolls 3.1% above 2016 levels. Industry gains were concentrated in the administrative and support services sector of the industry waste services, remediation, and temporary employment services. Industry growth is expected to carry into 2018 and 2019 with growth rates of 1.7% and 1.0% respectively.

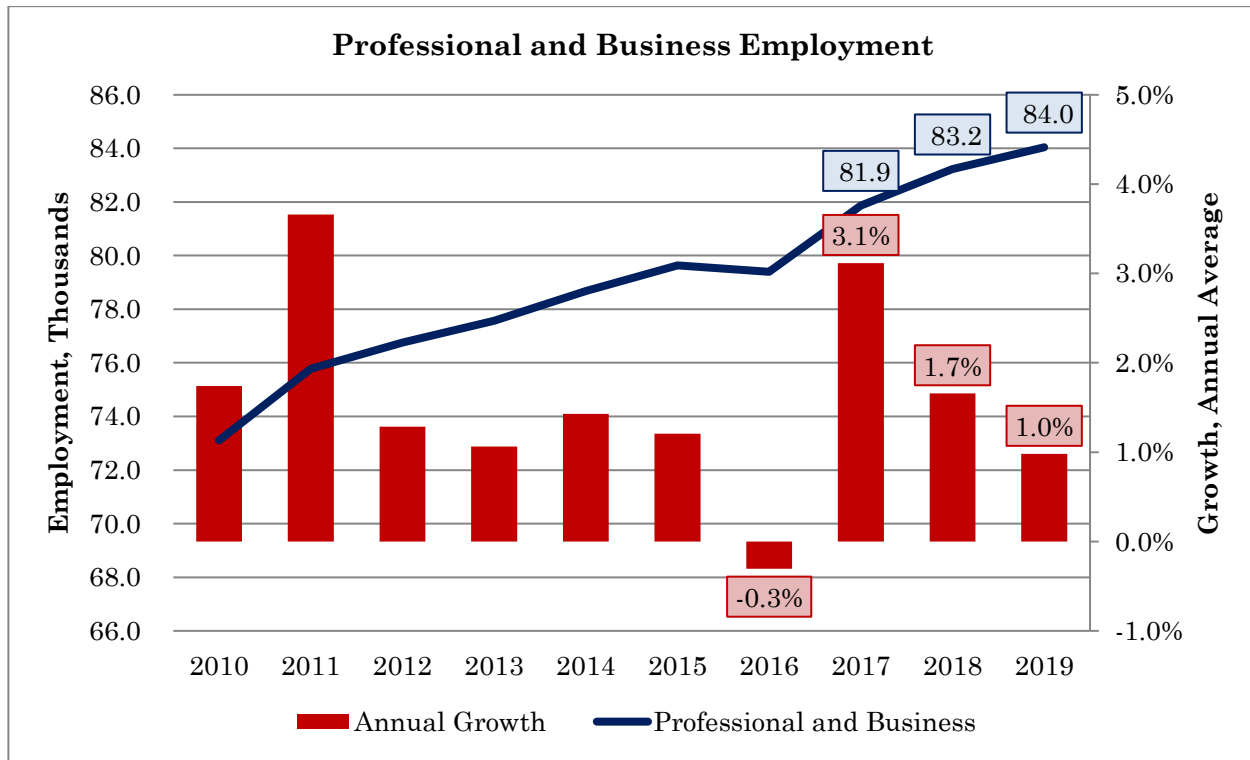
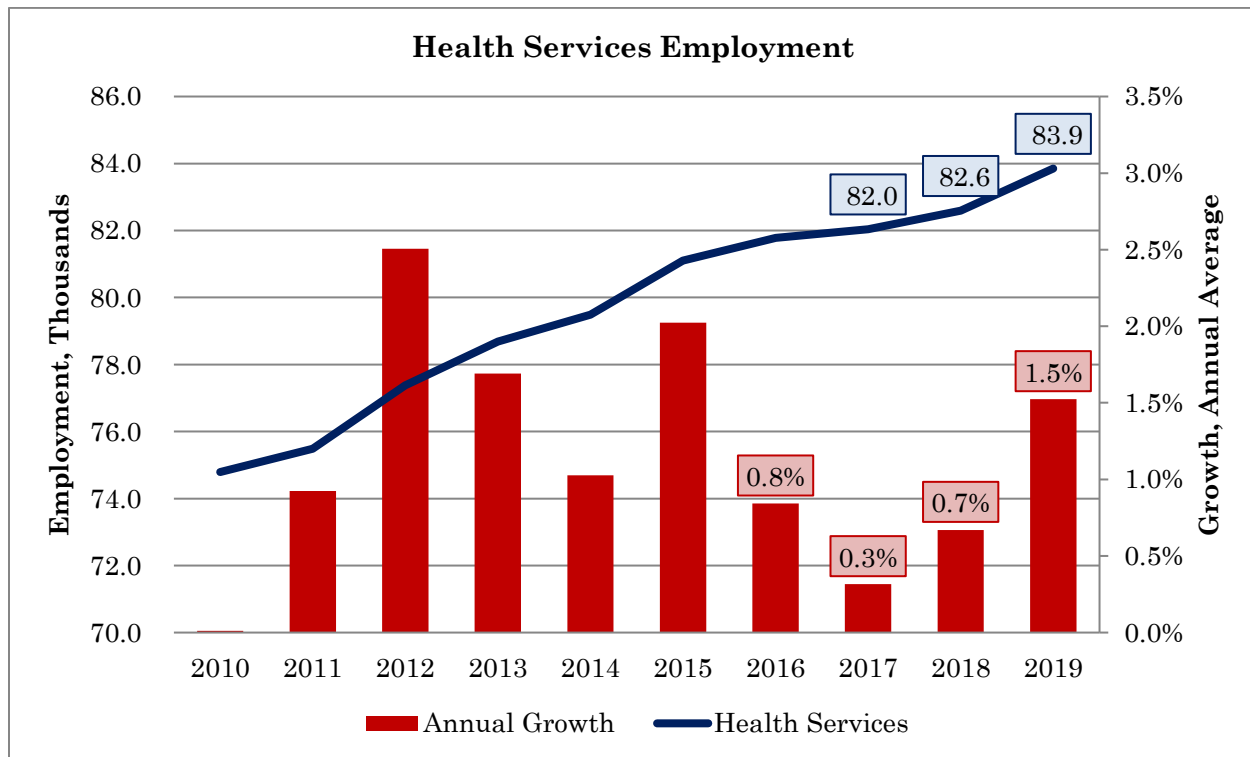


Figure 28: Oklahoma City Professional and Business Services Employment



Health services employment tends to grow unevenly with population as high and low growth years oscillate. Slower growth in 2010 and 2011 turned to stronger growth in 2012 and 2013. Growth slowed in 2014 and picked up again in 2015. Growth slowed in 2016 and 2017 and is expected to continue at a modest rate of 0.7% in 2018. Health services employment growth is expected to pick up in 2019 at a 1.5% pace, passing 84,000 workers in the industry.



*Figure 29: Oklahoma City Health Services Employment*

Oklahoma City leisure services employment continues as a reliable source of employment gains for the city. The industry’s primary gains come from the food services and accommodations subsector supplemented by gains in arts and recreation. After slowing in 2016, the industry quickly returned to strength in 2017 with 3.2% growth. Growth is expected to hold into 2018 at 3.1% before slowing to 2.0% in 2019. Overall, the industry is expected to add nearly 20,000 jobs this decade with employment levels surpassing 75,000 workers in 2019.

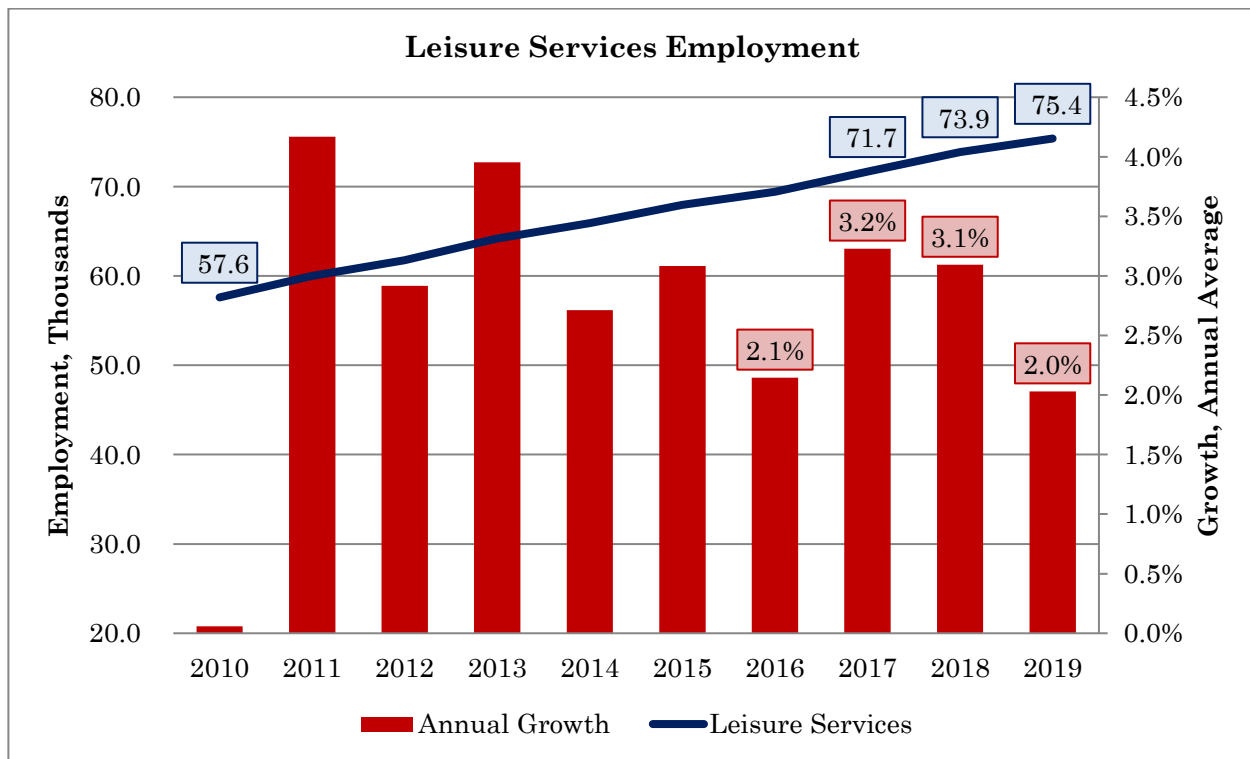


Figure 30: Oklahoma City Leisure Services Employment

## The Oklahoma City Fiscal Outlook

A year ago the economic recovery was taking hold and the city's fiscal prospects improving. The forecast indicated monthly sales tax collections would move from year-over-year contraction to year-over-year growth with the June sales tax check. The forecast for the second half of FY 2017 projected the fiscal year to conclude down 3.0% to 3.8% from FY 2016 with an early look ahead to FY 2018 calling for growth in the range of 3.8% to 4.2%.

Monthly sales tax collections turned positive a month earlier than predicted and exhibited stronger than forecasted growth through the end of FY 2017 and into the first half of FY 2018. Sales tax growth rates have exceeded what would be expected under strong economic conditions and instead are growing at rates reserved for aggressive economic recovery phases. For example, a year ago the forecasted year-over-year growth in the January 2018 sales tax check (the most recent) was 5.1% with the actual growth exceeding this projection at 7.8%. Sales tax collections are expected to continue to outperform the forecast through the conclusion of FY 2018 with year-end growth above the 4.2% upper range of the forecast. Looking ahead to FY 2019 is complicated by the expected transition from recovery phase to a market fundamental phase with the turn of the fiscal year.

Sales tax collections are modeled as a function of economic conditions as reflected in MSA and county employment and earnings. While the econometric models for estimating sales tax collections rely primarily on the relationship with regional employment and earnings, other correlations exist and can offer additional information throughout the year. These include sale tax correlations with enplanements, drilling activity, and more. That these variables are (currently) not explicitly modeled in this forecast should not detract from the usefulness of tracking these and other indicators throughout the year.

Two alternative forecasting models are estimated and reported below. The first gives a greater voice to earnings in the forecast relationship while the other gives greater voice to the employment relationship. Both models are constructed and estimated for the July 2017 to December 2017 period. By estimating the models for the most recent six

month period we can compare the predicted sales tax activity against the realized activity.

The model constructed around the relationship between sales tax activity and regional earnings correctly predicted the six months of sales tax growth with three months of over-predicting actual growth and three months of under-predicting actual growth. Over the six-month period, the actual average monthly sales tax growth was 4.63% while the model predicted average monthly growth of 5.12%.

Baseline Model (Earnings): Restricted Sample Performance			
Month	Actual Growth	Forecasted Growth	Actual - Forecasted
Jul-17	1.54%	2.32%	0.78%
Aug-17	5.75%	4.73%	1.02%
Sep-17	3.42%	5.75%	2.33%
Oct-17	4.47%	6.17%	1.70%
Nov-17	5.11%	4.98%	0.13%
Dec-17	7.46%	6.75%	0.71%
Average	4.63%	5.12%	1.11%
			MAPE
			1.07%

The model constructed around regional employment performs similarly. The model correctly predicts the six months of growth and is also unbiased with three months of growth over-predicted and three under-predicted. Across the six month period, the forecasted average monthly growth rate of 4.77% compares favorably to the realized monthly average growth rate of 4.63%.

Baseline Model (Employment): Restricted Sample Performance			
Month	Actual Growth	Forecasted Growth	Actual - Forecasted
Jul-17	1.54%	1.86%	0.32%
Aug-17	5.75%	5.01%	0.74%
Sep-17	3.42%	5.67%	2.25%
Oct-17	4.47%	5.76%	1.29%
Nov-17	5.11%	4.34%	0.77%
Dec-17	7.46%	5.95%	1.51%
Average	4.63%	4.77%	1.15%
			MAPE
			1.09%

Both models are made current by bringing all economic data up-to-date through January 2018 (or most recent observation). Employment and earnings data from the economic outlook are included in the dataset through December 2019 and are treated as known by the model. As such, significant deviations from the underlying economic forecast are expected to cause significant deviations from the fiscal forecast. No attempt is made in the data to account for recent changes in the sales tax rate.

FY 2018 Outlook		
Month	Model 1 (Earnings)	Model 2 (Employment)
Feb-18	7.61%	7.85%
Mar-18	9.56%	9.89%
Apr-18	6.63%	6.98%
May-18	1.97%	2.27%
Jun-18	6.50%	6.80%
Average	6.45%	6.76%
FY 2019 Outlook		
	Model 1 (Earnings)	Model 2 (Employment)
<i>FY 2019</i>	3.00%	3.30%

The models are remarkably similar in their predictions for the second half of FY 2018 and FY 2019. Both models anticipate a strong run through the end of FY 2018 all months but May posting strong gains. The May sales tax check could serve as an indicator for the start of the next fiscal year and earlier model runs predicted the May check to be flat (or even slightly down) from a year ago. A May check considerably stronger than predicted could indicate residual sales tax strength from the current recovery to carry into FY 2019. Both models anticipate sales tax growth rates to slow in the fiscal year ahead, returning to growth consistent with strong but stable economic conditions. The current forecast range for FY 2019 is 3.0% to 3.3%.

All economic forecasts are built around things that we know and things that we don't. The things that we know have already happened and are already reflected in the data. The things that we don't know have yet to happen and are absent in the data. If we limit the discussion to only what we know, then the year ahead promises a strong U.S., state, and local economic performance. But concerns that are, at this point, merely a potential impediment are plentiful. As such, I expect the most likely outcome to be a year in which sales tax collections outperform the forecast while prudence suggests it is better not to act on that expectation.

## Appendix: Detailed Forecast Tables

U.S. Economic Outlook Summary											
Gross Domestic Product: Growth and Components	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real gross domestic product, (\$ billions, 2009)	14418.7	14783.7	15020.5	15354.6	15612.2	16013.2	16471.5	16716.1	17089.6	17514.5	17883.2
Real gross domestic product, annual growth	-0.2	2.7	1.7	1.3	2.7	2.7	2.0	1.8	2.5	2.2	2.1
Major components of real GDP											
Personal consumption expenditures, growth	-0.2	3.1	1.5	1.3	2.0	3.6	3.0	2.8	2.6	2.5	2.2
Nonresidential fixed investment, growth	-12.2	8.1	9.0	5.2	4.8	6.1	0.3	0.7	5.5	4.5	4.5
Residential investment, growth	-10.8	-5.2	6.0	15.7	6.8	6.3	10.3	2.5	-1.0	3.4	5.2
Change in private inventories (\$ billions, 2009)	-147.6	58.2	37.6	54.7	78.7	67.8	100.5	33.4	22.0	58.7	54.9
Government consumption and gross investment	2.3	-1.1	-3.0	-2.2	-2.8	0.5	1.6	0.4	-0.2	0.6	0.6
Employment and Industrial Activity											
Private housing starts (thousands)	554	586	612	784	928	1001	1107	1177	1190	1256	1368
Light vehicle sales (millions)	10.4	11.6	12.7	14.4	15.5	16.5	17.4	17.5	17.1	17.1	17.0
Industrial production, growth	-5.7	6.0	2.8	2.3	2.2	3.4	-2.7	-0.1	2.4	2.7	2.4
Manufacturing capacity utilization	65.5	70.7	73.7	74.8	74.7	75.4	75.5	75.1	75.5	76.0	75.7
Nonfarm employment (monthly average, millions)	131.3	130.4	131.9	134.2	136.4	138.9	141.8	144.3	146.4	148.7	150.7
Unemployment rate	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	4.0	3.9
Prices, Productivity, & Costs											
Consumer price index (all items), growth	1.5	1.2	3.3	1.9	1.2	1.2	0.4	1.8	1.9	1.7	2.8
Core CPI (excl. food and energy), growth	1.8	0.6	2.2	1.9	1.7	1.7	2.0	2.2	1.7	2.1	2.2
Personal consumption expenditures price index, growth	1.2	1.3	2.7	1.8	1.2	1.2	0.4	1.6	1.5	1.6	2.2
Core PCE price index, growth	1.4	1.0	1.9	1.8	1.5	1.5	1.3	1.9	1.4	1.8	2.0
Compensation per hour, growth	1.2	1.3	0.5	5.7	-0.1	3.1	3.1	-0.3	2.9	3.2	3.6
Output per hour, growth	5.4	1.8	0.0	0.1	1.6	0.3	0.7	0.8	1.3	0.9	1.1
Price of WTI crude oil (\$/barrel)	61.69	79.43	95.08	94.20	97.94	93.26	48.74	43.22	49.95	51.51	54.95
Price of Brent crude oil (\$/barrel)	61.49	79.51	111.26	111.65	108.64	99.02	52.35	43.55	52.87	54.17	57.58
Income, Interest Rates, and the Deficit											
Federal funds rate	0.16	0.17	0.10	0.14	0.11	0.09	0.13	0.40	1.00	1.63	2.33
10-year Treasury note yield	3.26	3.21	2.79	1.80	2.35	2.54	2.14	1.84	2.35	2.81	3.31
Disposable personal income (\$ billions, 2009)	-0.7	2.6	1.7	5.1	-2.8	4.9	3.2	0.2	2.1	3.2	2.8
Personal saving rate (%)	6.1	5.6	6.1	7.6	5.0	5.7	6.1	4.8	3.6	3.6	4.2
Unified federal surplus, fiscal year	-1415.7	-1294.2	-1296.8	-1089.2	-680.2	-483.6	-439.1	-585.6	-665.7	-534.5	-692.5

Source: Macroeconomic Advisers; Steven C. Agee Economic Research and Policy Institute

Oklahoma Employment Forecast										
Variable / Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nonfarm	1,556.0	1,577.7	1,614.1	1,635.3	1,656.4	1,667.8	1,651.7	1,662.2	1,684.4	1,700.5
Annual Growth	-0.7%	1.4%	2.3%	1.3%	1.3%	0.7%	-1.0%	0.6%	1.3%	1.0%
Private	1,207.5	1,233.8	1,267.0	1,286.7	1,308.1	1,316.7	1,298.1	1,307.9	1,329.7	1,344.5
Annual Growth	-1.0%	2.2%	2.7%	1.6%	1.7%	0.7%	-1.4%	0.8%	1.7%	1.1%
Mining	43.9	51.8	58.6	60.1	62.2	54.4	44.0	46.1	51.2	54.1
Annual Growth	0.8%	18.1%	13.0%	2.5%	3.5%	-12.6%	-19.0%	4.7%	11.2%	5.7%
Construction	67.0	68.3	70.4	74.7	75.4	77.4	77.1	80.7	84.6	87.0
Annual Growth	-2.7%	1.9%	3.1%	6.1%	0.9%	2.7%	-0.4%	4.6%	4.8%	2.8%
Manufacturing	123.4	129.9	135.7	136.8	139.5	137.2	128.7	130.4	132.3	130.4
Annual Growth	-4.6%	5.3%	4.5%	0.8%	2.0%	-1.7%	-6.1%	1.3%	1.5%	-1.4%
Trade, Transport, Utilities	277.1	282.3	289.9	294.6	301.3	307.0	306.7	301.8	306.4	310.6
Annual Growth	-1.5%	1.9%	2.7%	1.6%	2.3%	1.9%	-0.1%	-1.6%	1.5%	1.4%
Wholesale	53.9	55.6	57.6	58.7	60.3	60.0	58.5	57.8	59.7	60.6
Annual Growth	-1.4%	3.1%	3.7%	2.0%	2.7%	-0.6%	-2.5%	-1.1%	3.2%	1.6%
Retail	168.6	170.5	173.2	175.0	178.8	183.2	184.2	180.9	183.5	186.3
Annual Growth	-0.7%	1.1%	1.5%	1.1%	2.2%	2.4%	0.6%	-1.8%	1.4%	1.5%
Transportation	54.6	56.2	59.2	60.8	62.2	63.9	64.1	63.1	63.3	63.7
Annual Growth	-3.7%	3.0%	5.2%	2.8%	2.3%	2.8%	0.2%	-1.5%	0.3%	0.7%
Information	24.3	23.0	22.5	21.8	21.2	21.2	21.3	21.1	20.6	20.4
Annual Growth	-9.5%	-5.0%	-2.5%	-3.0%	-2.7%	0.0%	0.6%	-1.3%	-2.3%	-0.9%
Financial Services	78.1	77.6	78.1	78.9	79.5	79.5	78.8	80.8	81.5	81.8
Annual Growth	-1.8%	-0.7%	0.7%	1.0%	0.8%	0.0%	-0.9%	2.5%	0.9%	0.5%
Professional and Business	172.3	175.9	179.5	181.3	184.5	184.1	180.5	182.3	183.3	184.4
Annual Growth	1.5%	2.1%	2.1%	1.0%	1.8%	-0.2%	-1.9%	1.0%	0.5%	0.6%
Education and Health	221.7	223.1	226.2	227.7	228.1	231.6	233.9	237.8	239.6	241.3
Annual Growth	1.4%	0.6%	1.4%	0.6%	0.2%	1.5%	1.0%	1.7%	0.7%	0.7%
Education	18.4	19.0	19.2	19.4	19.7	20.0	19.8	19.9	20.4	20.6
Annual Growth	1.5%	3.3%	1.0%	1.2%	1.5%	1.1%	-0.9%	0.6%	2.4%	1.0%



Oklahoma Employment Forecast (cont'd)										
Variable / Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Health Services	203.3	204.1	207.0	208.3	208.4	211.6	214.1	217.9	219.2	220.7
Annual Growth	1.4%	0.4%	1.4%	0.6%	0.0%	1.6%	1.2%	1.8%	0.6%	0.7%
Leisure Services	139.1	143.1	147.4	151.9	156.2	162.0	164.4	166.5	169.5	173.4
Annual Growth	-0.7%	2.9%	3.0%	3.0%	2.9%	3.7%	1.5%	1.3%	1.8%	2.3%
Other Services	60.6	58.8	58.6	59.1	60.1	62.4	62.7	60.6	60.9	61.2
Annual Growth	-1.7%	-2.9%	-0.4%	0.9%	1.7%	3.7%	0.5%	-3.3%	0.5%	0.4%
Government	348.5	343.9	347.1	348.6	348.4	351.2	353.6	354.2	354.8	356.0
Annual Growth	0.1%	-1.3%	0.9%	0.4%	-0.1%	0.8%	0.7%	0.2%	0.1%	0.3%
Federal	50.4	49.1	48.4	47.1	46.3	46.9	48.1	48.5	48.3	48.0
Annual Growth	8.3%	-2.6%	-1.6%	-2.5%	-1.8%	1.4%	2.5%	1.0%	-0.4%	-0.6%
State	83.8	84.8	86.4	86.3	85.8	85.5	85.3	85.3	86.0	86.4
Annual Growth	-1.5%	1.2%	1.9%	-0.1%	-0.6%	-0.3%	-0.3%	0.0%	0.8%	0.5%
Local	214.3	209.9	212.4	215.1	216.3	218.7	220.2	220.4	220.4	221.5
Annual Growth	-1.1%	-2.0%	1.2%	1.3%	0.5%	1.1%	0.7%	0.1%	0.0%	0.5%

Oklahoma Production, Income, and Population							
Variable	2013	2014	2015	2016	2017	2018	2019
Real State GDP (\$ millions)	\$166,762	\$176,092	\$181,486	\$174,033	\$175,878	\$182,148	\$187,935
Annual Growth	4.4%	5.6%	3.1%	-4.1%	1.1%	3.6%	3.2%
Personal Income (\$ thousands)	\$164,437,285	\$175,210,238	\$171,788,102	\$167,502,814	\$179,543,000	\$192,313,356	\$203,861,598
Annual Growth	4.8%	6.6%	-2.0%	-2.5%	7.2%	7.1%	6.0%
Population	3,852,415	3,877,499	3,907,414	3,923,561	3,951,785	3,977,645	4,000,064
Annual Growth	0.9%	0.7%	0.8%	0.4%	0.7%	0.7%	0.6%
Per Capita Personal Income	\$42,684	\$45,186	\$43,965	\$42,692	\$45,433	\$48,348	\$50,965
Annual Growth	3.9%	5.9%	-2.7%	-2.9%	6.4%	6.4%	5.4%
Disposable Pers. Income (\$ thousands)	\$148,790,032	\$158,676,003	\$155,159,995	\$151,438,264	\$160,276,279	\$169,876,296	\$179,178,312
Annual Growth	4.5%	6.6%	-2.2%	-2.4%	5.8%	6.0%	5.5%
Disposable Per Capita Income	\$38,623	\$40,922	\$39,709	\$38,597	\$40,558	\$42,708	\$44,794
Annual Growth	3.6%	6.0%	-3.0%	-2.8%	5.1%	5.3%	4.9%

Oklahoma City Employment Outlook										
Variable / Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nonfarm	566.8	580.1	594.2	608.1	619.7	629.5	628.4	635.3	644.4	656.1
Annual Growth	-0.2%	2.3%	2.4%	2.3%	1.9%	1.6%	-0.2%	1.1%	1.4%	1.8%
Private	444.8	458.4	471.7	483.4	495.0	502.5	498.8	503.8	512.8	523.3
Annual Growth	-0.6%	3.1%	2.9%	2.5%	2.4%	1.5%	-0.7%	1.0%	1.8%	2.0%
Mining	14.3	17.0	19.6	20.2	20.8	19.1	15.6	15.6	17.1	18.3
Annual Growth	5.4%	19.0%	15.3%	3.1%	2.9%	-8.1%	-18.0%	-0.3%	9.8%	6.6%
Construction	25.2	25.9	26.5	27.1	28.3	29.2	29.1	28.5	28.7	29.1
Annual Growth	-2.3%	2.6%	2.4%	2.4%	4.6%	3.0%	-0.4%	-1.9%	0.6%	1.5%
Manufacturing	31.0	32.9	35.1	36.5	37.5	37.4	34.8	34.2	35.1	36.7
Annual Growth	-4.6%	6.1%	6.6%	4.0%	2.9%	-0.2%	-6.9%	-1.8%	2.5%	4.7%
Trade, Transport, Utilities	97.2	100.0	102.9	107.0	109.5	111.8	112.5	111.8	112.4	115.0
Annual Growth	-0.3%	2.9%	2.9%	4.0%	2.4%	2.1%	0.6%	-0.6%	0.5%	2.3%
Wholesale	20.6	21.6	22.7	23.9	24.5	24.6	24.2	23.1	23.1	23.9
Annual Growth	0.1%	4.8%	5.5%	5.1%	2.4%	0.5%	-1.8%	-4.5%	0.0%	3.5%
Retail	60.1	61.2	62.3	64.2	65.9	67.6	68.5	69.4	69.8	71.2
Annual Growth	-0.2%	1.9%	1.9%	3.0%	2.7%	2.6%	1.3%	1.3%	0.7%	1.9%
Transportation	16.6	17.3	17.8	18.9	19.1	19.6	19.9	19.4	19.5	19.9
Annual Growth	-1.5%	4.1%	3.3%	5.9%	1.2%	2.6%	1.1%	-2.2%	0.5%	2.2%
Information	9.6	9.0	8.6	8.2	8.1	8.3	8.3	8.5	8.8	9.0
Annual Growth	-13.6%	-5.8%	-4.4%	-4.7%	-0.7%	1.5%	0.3%	2.7%	3.1%	3.0%
Financial Services	31.0	30.8	31.8	32.4	33.1	33.3	33.0	34.2	34.8	35.3
Annual Growth	-1.0%	-0.6%	3.1%	1.9%	2.4%	0.6%	-0.9%	3.6%	1.8%	1.2%
Professional and Business	73.1	75.8	76.8	77.6	78.7	79.6	79.4	81.9	83.2	84.0
Annual Growth	1.7%	3.7%	1.3%	1.1%	1.4%	1.2%	-0.3%	3.1%	1.7%	1.0%
Education and Health	83.2	84.4	86.4	88.0	88.9	90.5	91.2	92.2	93.5	94.8
Annual Growth	0.4%	1.4%	2.4%	1.7%	1.1%	1.8%	0.7%	1.2%	1.4%	1.4%
Health Services	74.8	75.5	77.4	78.7	79.5	81.1	81.8	82.0	82.6	83.9
Annual Growth	0.0%	0.9%	2.5%	1.7%	1.0%	2.0%	0.8%	0.3%	0.7%	1.5%

Oklahoma City Employment Outlook (cont'd)										
Variable / Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Leisure Services	57.6	60.0	61.7	64.2	65.9	68.0	69.4	71.7	73.9	75.4
Annual Growth	0.1%	4.2%	2.9%	4.0%	2.7%	3.1%	2.1%	3.2%	3.1%	2.0%
Other Services	22.7	22.7	22.4	22.4	24.0	25.2	25.5	25.1	25.3	25.7
Annual Growth	-2.7%	0.0%	-1.4%	0.0%	7.3%	5.0%	0.9%	-1.3%	0.6%	1.7%
Government	122.0	121.7	122.5	124.6	124.7	127.0	129.6	131.5	131.6	132.8
Annual Growth	1.0%	-0.2%	0.6%	1.7%	0.1%	1.8%	2.1%	1.4%	0.1%	0.9%
Federal	28.1	28.4	28.2	27.6	26.9	27.4	28.3	29.0	28.8	28.8
Annual Growth	7.4%	0.9%	-0.6%	-2.2%	-2.4%	2.0%	3.3%	2.2%	-0.5%	0.1%
State	41.7	42.1	42.4	43.5	44.4	45.3	46.2	47.2	47.1	47.7
Annual Growth	-0.8%	0.8%	0.8%	2.6%	2.0%	2.0%	2.0%	2.2%	-0.1%	1.3%
Local	52.2	51.3	51.9	53.6	53.5	54.3	55.1	55.4	55.7	56.2
Annual Growth	-0.7%	-1.7%	1.2%	3.2%	-0.2%	1.5%	1.6%	0.5%	0.5%	1.0%

Oklahoma City Production, Income, and Population							
Variable	2013	2014	2015	2016	2017	2018	2019
Real Metro GDP (\$ millions)	\$61,798	\$63,172	\$67,172	\$65,666	\$66,259	\$67,658	\$69,756
Annual Growth	4.5%	2.2%	6.3%	-2.2%	0.9%	2.1%	3.1%
OKC Share of State GDP	37.1%	35.9%	37.0%	37.7%	37.7%	37.1%	37.1%
Annual Growth	0.1%	-3.2%	3.2%	1.9%	-0.2%	-1.4%	-0.1%
OKC & Tulsa Share of State GDP	70.3%	69.4%	69.8%	70.8%	70.9%	70.4%	70.6%
Annual Growth	1.2%	-1.2%	0.5%	1.4%	0.2%	-0.6%	0.2%
Personal Income (\$ thousands)	\$56,176,446	\$59,477,266	\$61,218,844	\$61,307,715	\$63,738,827	\$65,997,238	\$68,390,959
Annual Growth	3.1%	5.9%	2.9%	0.1%	4.0%	3.5%	3.6%
Population	1,320,579	1,336,784	1,356,965	1,373,211	1,392,425	1,412,367	1,432,185
Annual Growth	1.8%	1.2%	1.5%	1.2%	1.4%	1.4%	1.4%
Per Capita Personal Income	\$42,539	\$44,493	\$45,115	\$44,646	\$45,775	\$46,728	\$47,753
Annual Growth	1.3%	4.6%	1.4%	-1.0%	2.5%	2.1%	2.2%
OKC & Tulsa Share of State Population	59.3%	59.5%	59.8%	60.2%	60.3%	60.7%	61.1%
Annual Growth	0.5%	0.4%	0.6%	0.6%	0.3%	0.6%	0.7%
OKC & Tulsa Share of Personal Income	66.2%	66.5%	66.4%	66.1%	67.1%	67.5%	68.3%
Annual Growth	1.5%	0.4%	-0.1%	-0.4%	1.4%	0.6%	1.1%

**FIVE-YEAR  
FORECAST**  
FY 2019-2023

SECTION 4  
**FINANCIAL TREND  
MONITORING SYSTEM**

## 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.<sup>1</sup> 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 11<sup>th</sup> year using the FTMS.

The goal of the process is 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 just concentrating on a single indicator such as fund balance. Moreover, the fact that the indicators are plotted over time reduces 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.



**The Financial Trend Monitoring System is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.**

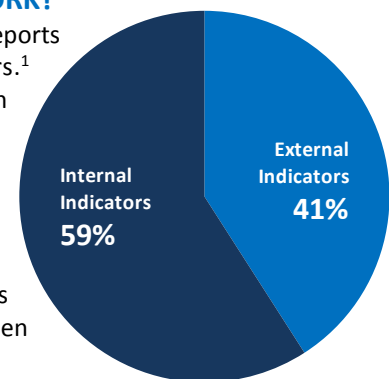


- **Service Level Solvency** – a government’s ability to provide services at the level and quality that are required for the health, safety, and welfare of the community.<sup>1</sup>

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 our current situation and plan for 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.<sup>1</sup> 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 22 measures are 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 that was 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 (2013-2017) were examined. There were some instances when 2017 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:

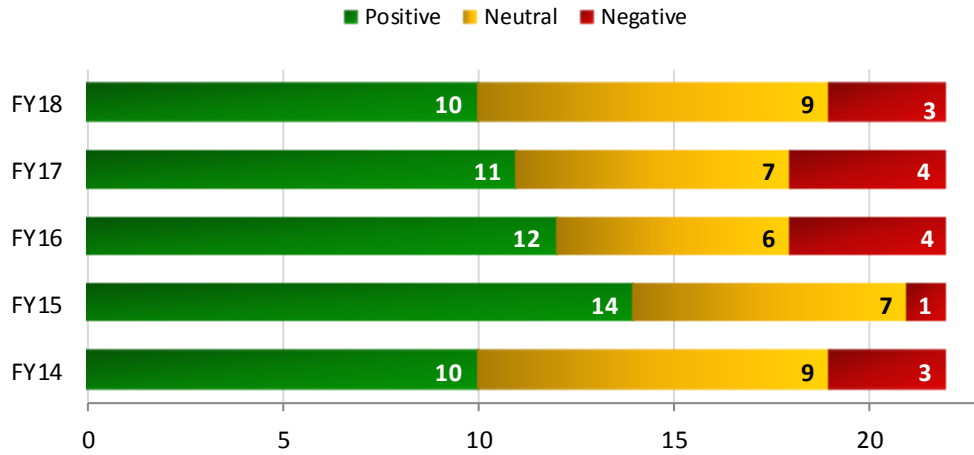
- ✓ A **positive** trend is favorable towards the City’s financial condition and/or the indicator is meeting City policy or performance measures set by management.
- A **neutral** trend implies there is no immediate concern. These indicators are watched carefully for change to indicate early signs of 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 **10 positive** indicators, **9 neutral** indicators, and **3 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 60.

**THE NEXT STEP**

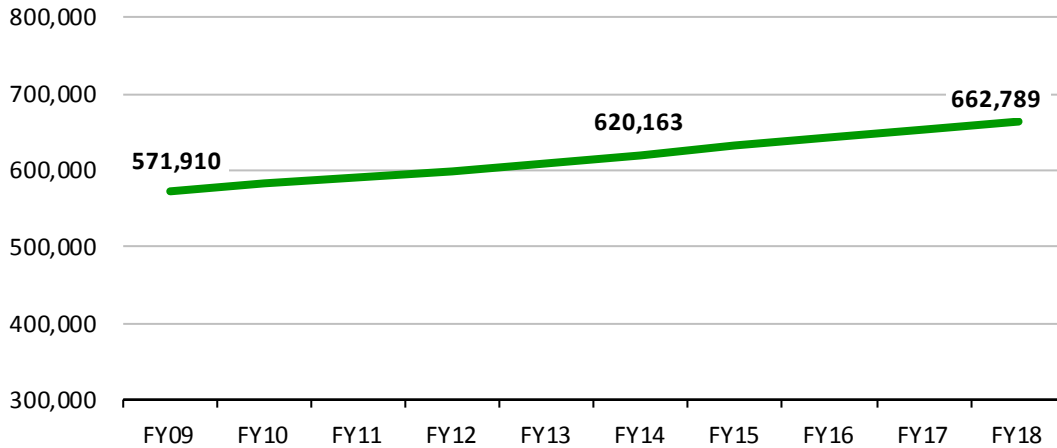
The FTMS system is not designed to project the future financial situation of the City; however, the system will provide a benchmark to track our recovery from the national recession (2007-2009) and the local economic downturn experienced in FY16 and FY17. Management will continue to monitor financial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

### Indicator History



FY14	FY15	FY16	FY17	FY18	EXTERNAL INDICATORS
●	●	●	●	●	Population
●	●	●	●	●	Labor Force
●	●	●	●	●	Average Weekly Earnings <i>Improved</i>
●	●	●	●	●	Crime Rate
●	●	●	●	●	Property Value
●	●	●	●	●	Office Vacancy Rate
●	●	●	●	●	Airport Activity
●	●	●	●	●	Private Development Plans Submitted for Approval
●	●	●	●	●	Active Drilling Rigs <i>Improved</i>
					<b>INTERNAL INDICATORS</b>
●	●	●	●	●	Revenue Per Capita
●	●	●	●	●	Revenue Accuracy
●	●	●	●	●	Sales Tax Revenues <i>Worsened</i>
●	●	●	●	●	Sales Tax as a % of General Fund
●	●	●	●	●	Hotel Tax Revenue <i>Worsened</i>
●	●	●	●	●	Grant Revenues
●	●	●	●	●	Employees per 1,000 Citizens
●	●	●	●	●	Fringe Benefits
●	●	●	●	●	Pension Funding Ratio
●	●	●	●	●	Long-Term Debt
●	●	●	●	●	Fund Balance
●	●	●	●	●	Liquidity
●	●	●	●	●	Enterprise Working Capital

# POPULATION



### 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 might 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.

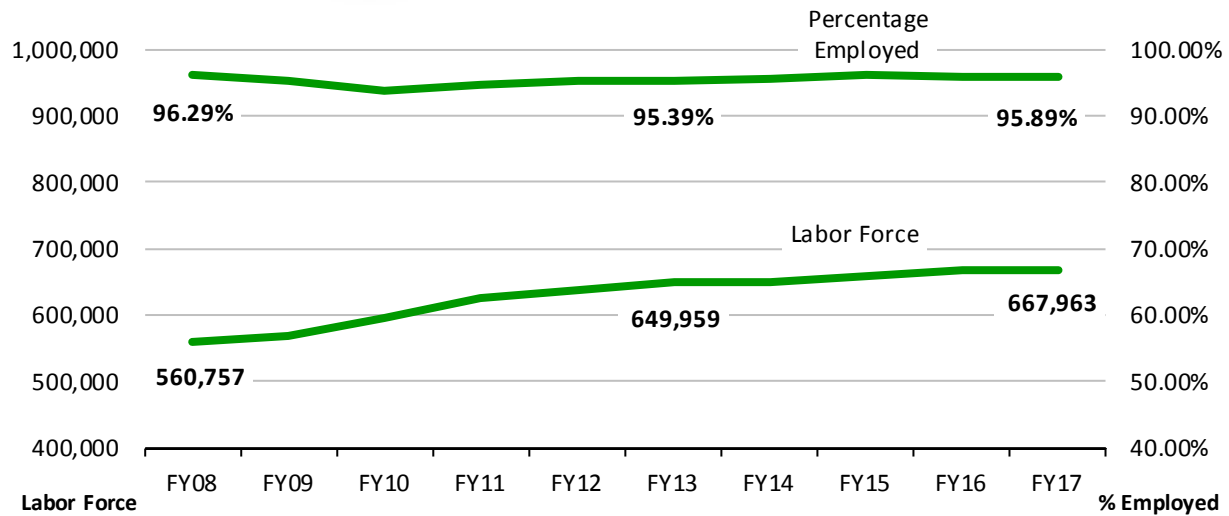
### Why is This Important to Oklahoma City?

Oklahoma City has been able to increase its revenue base without having 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 FY09 with an estimated 662,789 residents in FY18.<sup>1</sup> This is an average annual growth rate of 1.7% over the last five and 10 years. Since the growth has been relatively steady, the trend was rated positive.



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

# 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 of these growth 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?

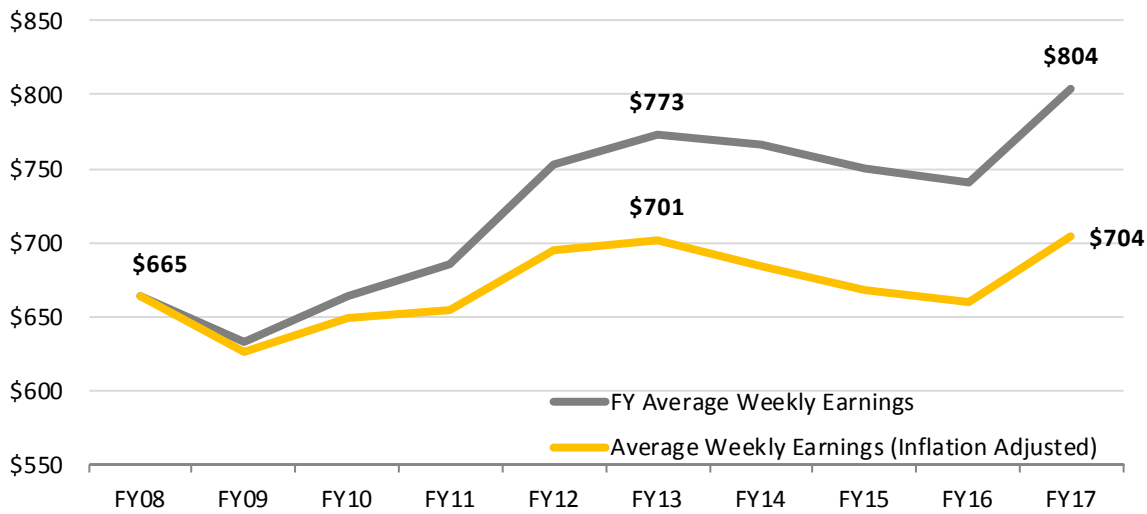
For many economists, an unemployment rate of 5% to 5.5% indicates “full employment” and if such that rate remains consistent it can have a stabilizing effect on inflation. While the range for full employment may vary by expert, generally, when the unemployment rate is higher citizens are struggling to find employment; when the unemployment rate is lower, the opposite occurs and employers may struggle to fill employment vacancies. In FY17, the percentage of the labor force of the Oklahoma City Metropolitan Statistical Area (MSA) employed was 96%, meaning 4% were unemployed or that employment in the local area was full. Over the last five years and ten years, employment has remained steady and averaged 95% 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 those individuals are able to find employment. In the last five years, the labor force grew by 2.8% and it grew by 19.1% over the last ten years. Labor Force growth in FY10 and FY11 was significant but has since slowed to an average of 1% growth annually. Annual growth in the labor force and consistent employment of 95% for the last five years resulted in a positive rating for this indicator.

**Formula:**

$$\frac{\text{Number of People Employed in OKC MSA}}{\text{OKC MSA Labor Force}}$$

# AVERAGE WEEKLY EARNINGS



## 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 for 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 wages is one way the City is able to convey its commitment to economic development and positively impact citizens’ income levels and quality of life. Higher weekly earnings mean residents in the OKC-MSA, on average, are able to purchase more goods and services than they once were. Average Weekly Earnings (AWE) declined for three years in a row beginning in FY14 in both current and inflation adjusted dollars, but FY17 saw a strong rebound of 8.5% growth in non-inflation adjusted wages. The rating for this indicator improved from negative to neutral in FY17 because when adjusted for inflation, the five-year growth was less than one percent. If the strong rebound continues, the rating could move to positive in the future.

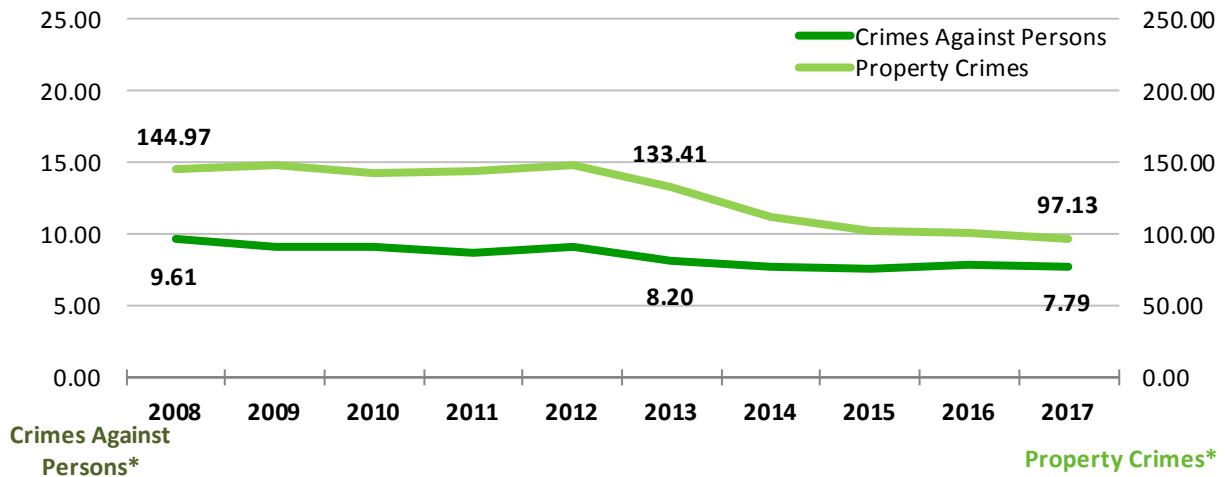
## Current Year Activity

The Average Weekly Earnings for early FY18 year-to-date data shows continued improvement from the chart above. In current dollars, the AWE was \$833 for July through November and the 20<sup>th</sup> consecutive month that Average Weekly Earnings grew over the same month in the prior year.

**Formula:**

$$\frac{\text{Average Weekly Wage, Private Sector, All Industries for Oklahoma County}}{\text{CPI}}$$

# CRIME RATE



\*Crimes against persons per 1,000 of population; property crimes per 1,000 households

## 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.



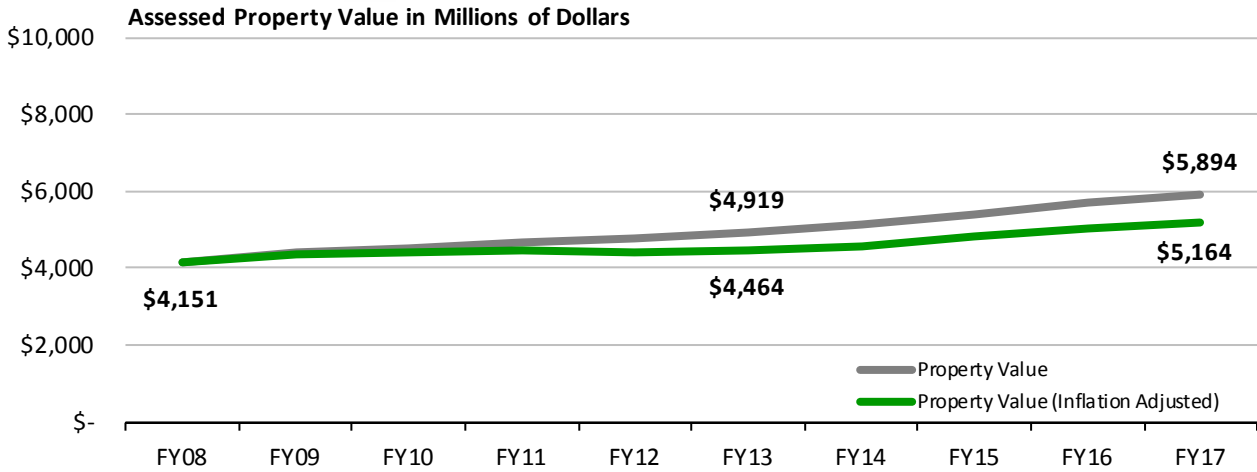
## Why is This Important to Oklahoma City?

With a third of the General Fund budget dedicated to Police and Courts, monitoring this trend and considering it in forecasts of future expenditures is financially prudent. The number of property crimes per 1,000 households has decreased over the last five years from 133.41 crimes per 1,000 households in calendar year 2013 to an estimated 96.99 in 2017. The number of crimes against persons has decreased from 8.20 per 1,000 in population in 2013 to an estimated 7.71 per 1,000 in population in 2017. The five-year trend of declining crime was the reason this indicator was rated positive. 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 214 uniformed positions and 19.2 civilian positions added to Police Department staffing since FY12.

\*Data for 2017 is estimated using actual data from January –September. October through December were an average of first nine months of 2017.

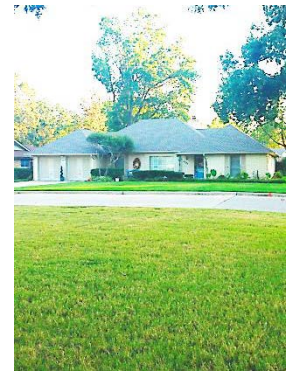
**Formula:** 
$$\frac{\text{Number of Crimes (against persons or property)}}{\text{Population/1,000 or Households/1,000}}$$

# PROPERTY VALUE



## 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.<sup>2</sup>



## Why is This Important to Oklahoma City?

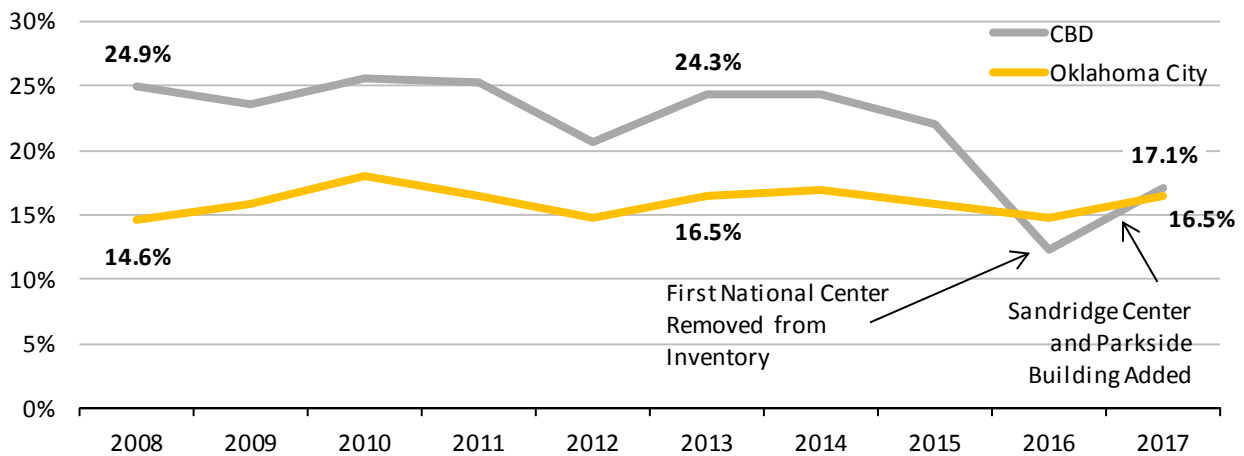
While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City’s finances; namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City’s debt capacity allowing more capital projects. Oklahoma City’s inflation adjusted assessed property value remained flat from FY10 through FY13 and then increased from 2% to 5% over the next four years. In FY17, the growth was 2.11%, an indicator that may be attributed to increased economic activity and population growth.<sup>3</sup> The City will continue to monitor this trend for future effects of the law that reduced the cap on assessed valuation growth from 5% per year to 3% per year. Based on the upward trend of inflation adjusted property values, this has been rated as a positive indicator.

**Formula:**

$$\frac{\text{Assessed Value}}{\text{CPI}}$$



## OFFICE VACANCY RATE



### 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.

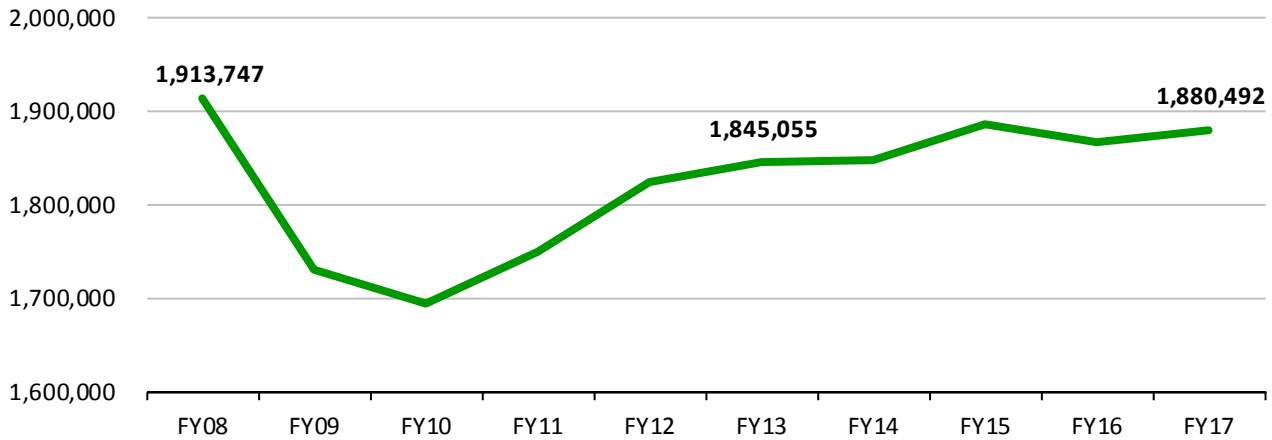


### Why is This Important to Oklahoma City?

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. In 2015 construction of one new office tower was begun at Sheridan and Hudson but plans by OG&E for a new tower were put on hold due to insufficient demand for additional downtown office space. The Price Edwards and Company Oklahoma City 2017 Mid-Year Office Market Summary stated that in reference to the Central Business District “Vacancy rates will rise as new buildings hit the market. Average rental rates will rise due to the addition of higher quality buildings” and in reference to the suburban submarket, “...any gains in absorption in the suburbs will be offset by the addition of new available space in the Central Business District”. The market analysis and fairly stable vacancy rate for Oklahoma City as a whole resulted in a neutral rating for this indicator.

**Formula:** Vacancy Rates from Price Edwards Oklahoma City Office Market Summary<sup>4</sup>

# AIRPORT ACTIVITY

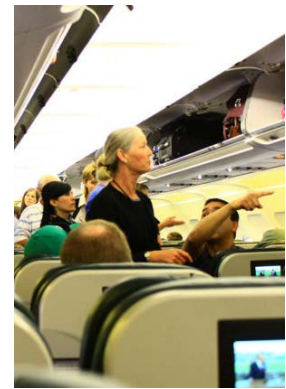


### What Does Airport Activity Measure?

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 numbers of passengers using Oklahoma City airports are good for the City whether the travel is for business or pleasure. Since FY12 Will Rogers World Airport has increased the number of destinations and airports served which has helped fuel an increase in passengers. Airport activity for Oklahoma City grew at an average rate of 1.9% over the last five years and averaged 1.86 million boarding passengers per year. The rating for this indicator remained positive as the number of boarding passengers in FY17 was greater than the number of boarding passengers in FY13 and above the five year average.



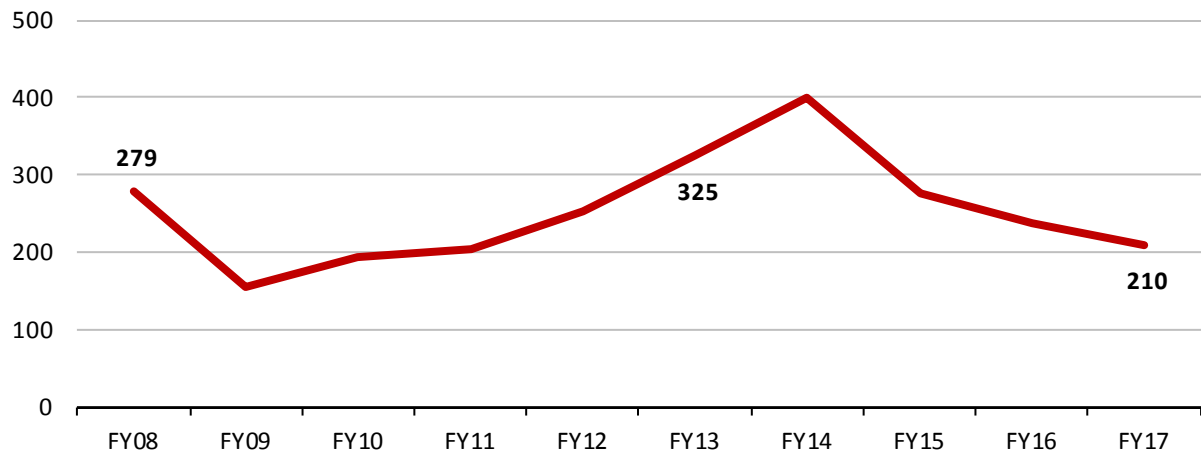
### Current Year Activity

The number of boarding passengers grew 8.7% during the first six months of FY18.

**Formula:**

Annual Number of Passengers Boarding at Will Rogers World Airport

## PRIVATE DEVELOPMENT PLANS



### 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.

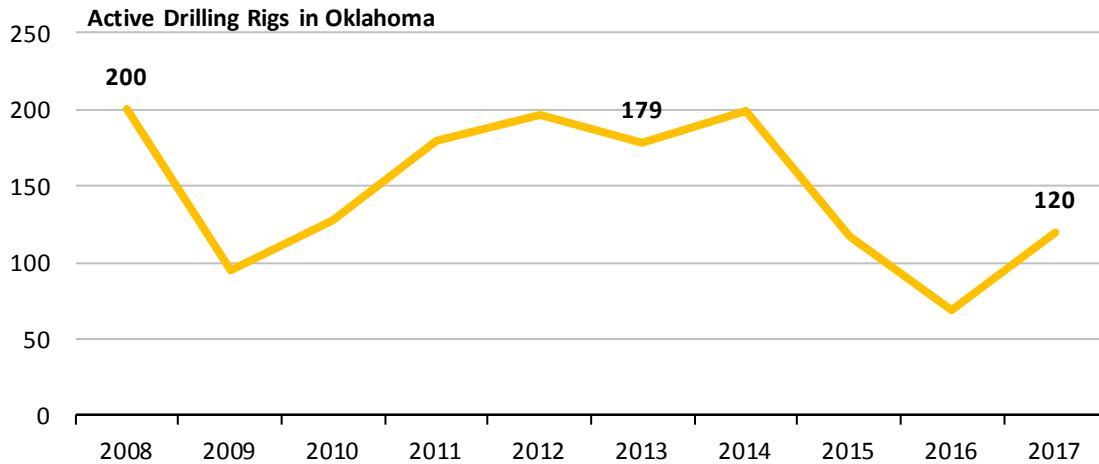


### Why is This Important to Oklahoma City?

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 future prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. The actual count of private plans submitted to Public Works decreased for the third straight year in FY17.

**Formula:** Sum the number of plans submitted for sanitary sewer, paving, and drainage to the Public Works Engineering Line of Business<sup>5</sup>

# ACTIVE DRILLING RIGS



## 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 very 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 move in the same direction a majority of the time. Now that operators are able to 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.

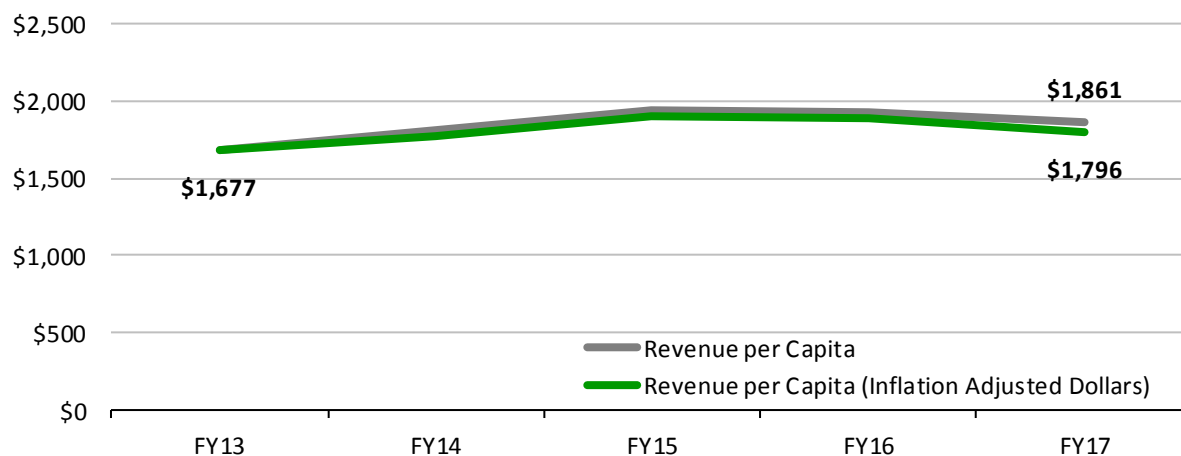


## Why is This Important to Oklahoma City?

The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A study<sup>6</sup> conducted for the Oklahoma State Chamber of Commerce by Dr. Mark Snead, 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 December 2016. Rig counts improved each month in 2017 and finished with annual average of 120, or 74% growth over prior year. The rating improved from negative to neutral because of the strong growth in 2017 but didn’t improve to positive because the average rig count is still 33% below the count from five years ago

**Formula:** Count of Active Rotary Rigs from Baker Hughes Incorporated <sup>7</sup>

## REVENUE PER CAPITA



### 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 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.<sup>1</sup>

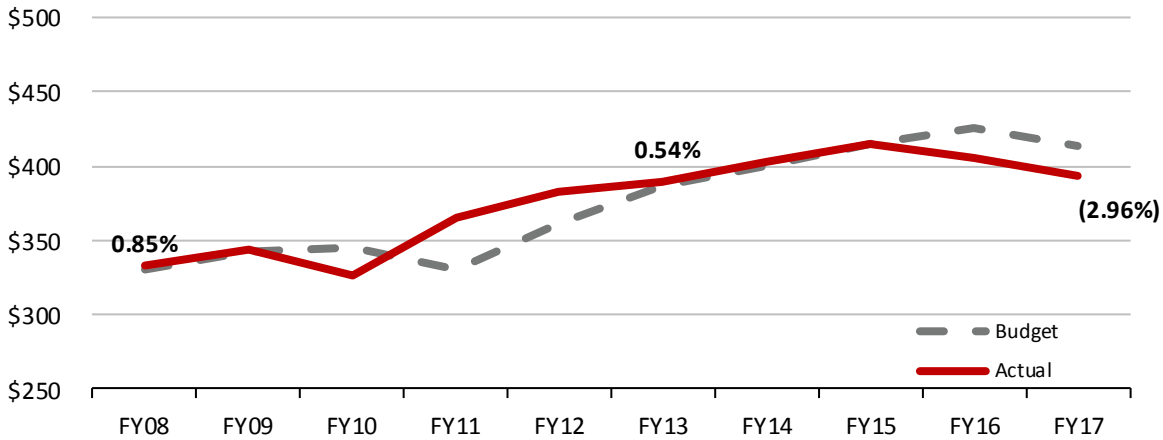
### Why is This Important to Oklahoma City?

This issue is delicate since revenue per capita is a reflection of the financial impact of the City's taxes and fees on citizens, but is also necessary to provide the level and quality of services citizens desire.<sup>5</sup> Over the five-year period, revenue per capita increased 7.10% after adjusting for inflation. However, it has declined the last two years due largely to a decline in primary government general revenues (General Fund Sales Tax, Service Charges, etc.) and operating grants and contribution. Although the revenue per capita declined the last two years, 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 in order to ensure revenue keeps up with population and inflation growth in the coming years.

#### Formula:

$$\frac{\text{Local Operating Revenues (Inflation Adjusted dollars)}}{\text{Population}}$$

# REVENUE ACCURACY



## Determining Revenue Accuracy

This indicator examines the differences between revenue estimates and revenues actually received in the General Fund during the fiscal year. Significant continued variances in revenue from estimated 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.<sup>2</sup> 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 do not meet estimates.

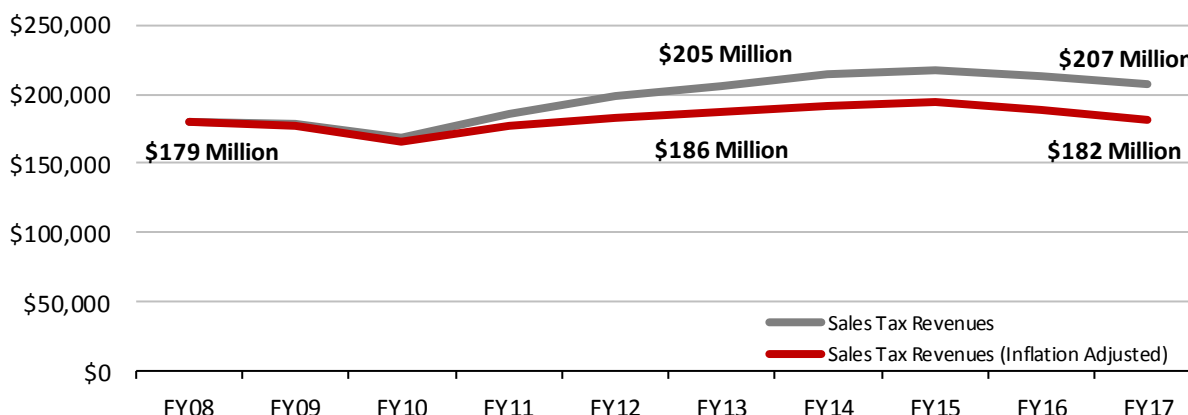
In FY08, FY09, FY13, FY14, and FY15 revenue collections were within 1% of projections. However, in FY10 Oklahoma was still feeling the impact of the recession and collections came in 5.68% below projections. Conservative projections in FY11 were exceeded as Oklahoma City rebounded strongly from the recession; FY12 was 6.09% above projections. A downturn in the local economy due to the energy sector contraction resulted in FY16 collections falling 4.93% below projections and FY17 collections falling 4.83% below projections. The average absolute variance over the last five years was 3.06%, which is above the City’s stated goal of having revenues within 2% of projections; therefore this indicator was rated negative.

## Current Year Activity

In the current fiscal year, General Fund revenue was 0.8% above projections through December.

**Formula:** Actual General Fund Revenue – Original Adopted General Fund Revenue Budget

# SALES TAX REVENUES



### 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?

Sales Tax accounts for 53% of all General Fund revenue on average, so 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, 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.<sup>3</sup> The chart above shows the rebound from the FY09 and FY10 recession and then another decline in FY16 and FY17 as the local economy was impacted by the energy sector contraction. After adjusting for inflation, sales tax revenue declined 2.4% over the last five years and grew only 1.4% over the last ten years. The five-year growth rate is lower than the long-standing trend of 3.5% growth and two consecutive years of declines in FY16 and FY17 led to a negative rating for this indicator.

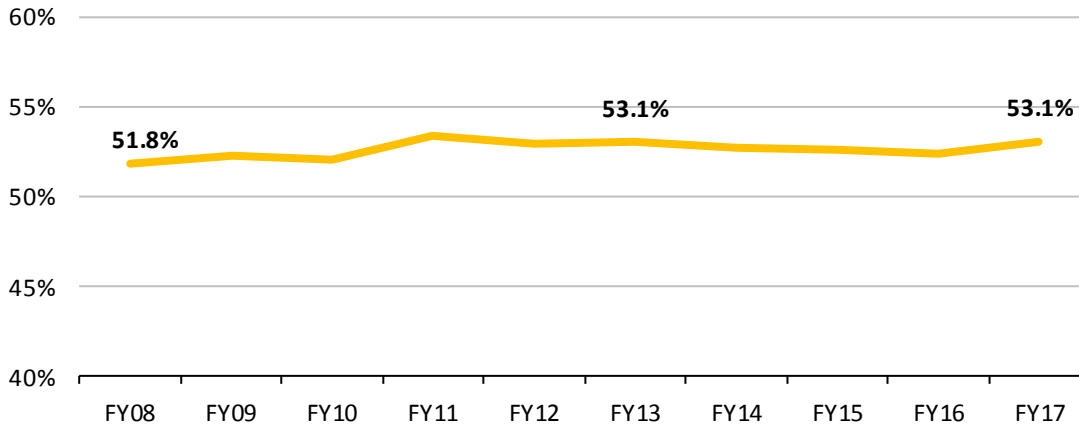
### Current Year Activity

The Oklahoma City economy has begun to rebound. In the current fiscal year sales tax had grown 5.06% through January and is projected to grow at 4% the remainder of the fiscal year. Even with the growth, FY18 collections are expected to be close to FY15 collections, excluding collections from a permanent ¼ cent sales tax increase that went into effect January 1, 2018. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

**Formula:**

$$\frac{\text{Sales Tax}}{\text{Consumer Price Index (2007 used as base year)}}$$

## SALES TAX AS PERCENTAGE OF GENERAL FUND



### 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 cents per dollar for Oklahoma City’s General Fund. In economic terms Sales Tax is considered to be an elastic revenue source; meaning that it changes incrementally with changes in the economy.<sup>3</sup> 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. The consistent percentage of Sales Tax as a percent of total General Fund revenue indicates that the City’s revenue base is less diverse; however, due to the small scale of the change from year to year this is rated as a neutral trend. Staff will continue to review fee levels and propose new revenue sources where possible to continue to move the City toward a more diversified revenue mix.

### Current Year Activity

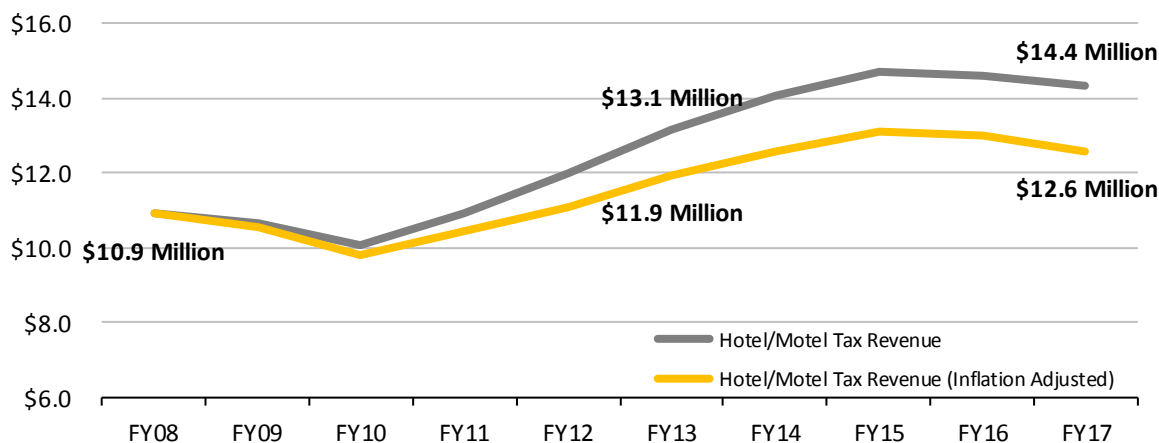
Beginning January 1, 2018 a permanent ¼ cent sales tax increase became effective. The sales tax collections are expected to climb to 54% of all general fund revenue in FY18 based on the half year of rate increase and then 55.6% of all General Fund revenue in FY19.

**Formula:**

$$\frac{\text{Sales Tax Revenue}}{\text{All General Fund Revenue}}$$



# HOTEL MOTEL TAX



### Why is Hotel Motel Tax an indicator for Financial Performance?

Hotel Motel 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 Motel Tax rate for Oklahoma City is 5.5%. With 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 Motel 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 terms of inflation adjusted dollars, Hotel Motel Tax revenue grew 5% over the last 5-years and 15% 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, and growth over the five-year period led us to assign a neutral rating for this indicator.

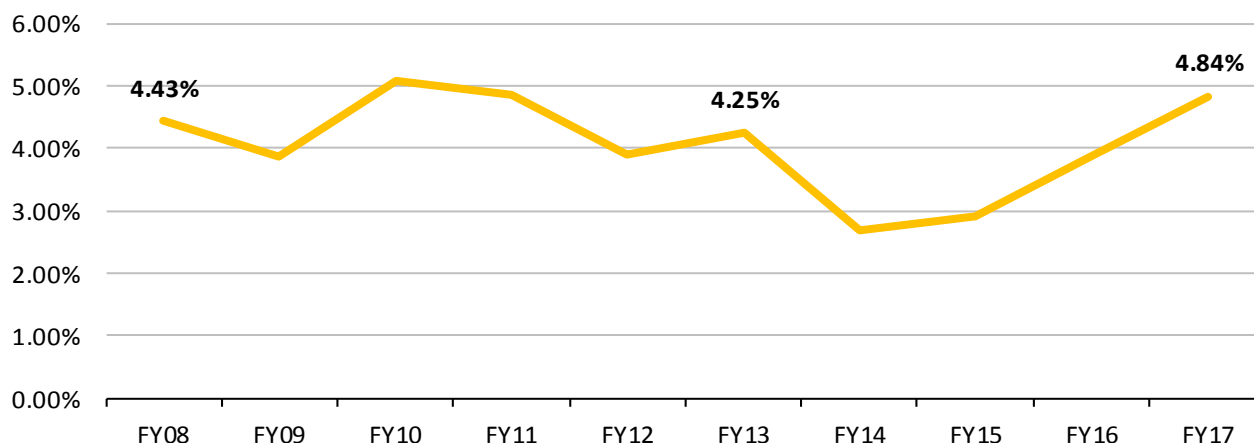
### Current Year Activity

Hotel Motel Tax had grown 7% through December 2017.

**Formula:**

$$\frac{\text{Hotel Motel Tax}}{\text{CPI}}$$

## GRANT 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.<sup>4</sup> 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.

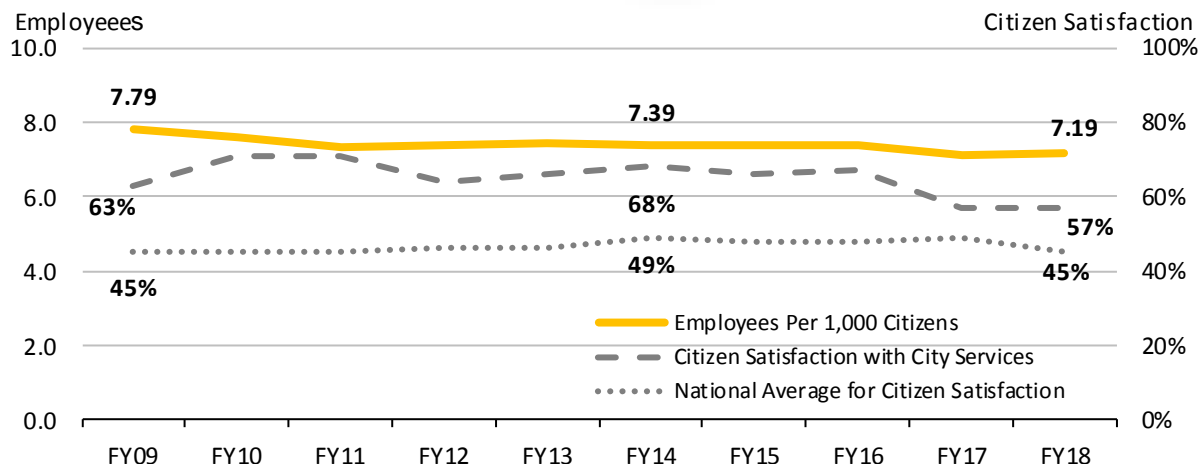
### Why is This Important to Oklahoma City?

The three largest granting agencies, Department of Housing and Urban Development, Department of Transportation, and Department of Homeland Security, accounted for 97% of the \$64.7 million in grant revenue in FY17. Some of these grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. Without grant funds, many of the social services and capital project programs funded by the grants would cease. 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 their lowest level since 2001 but have since began to return towards that range, coming just short of it in FY17 at 3.71% resulting in a neutral rating for this indicator.

**Formula:**

$$\frac{\text{Grant Revenues}}{\text{Operating Revenues}}$$

# EMPLOYEES PER 1,000 CITIZENS



## 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.<sup>5</sup>

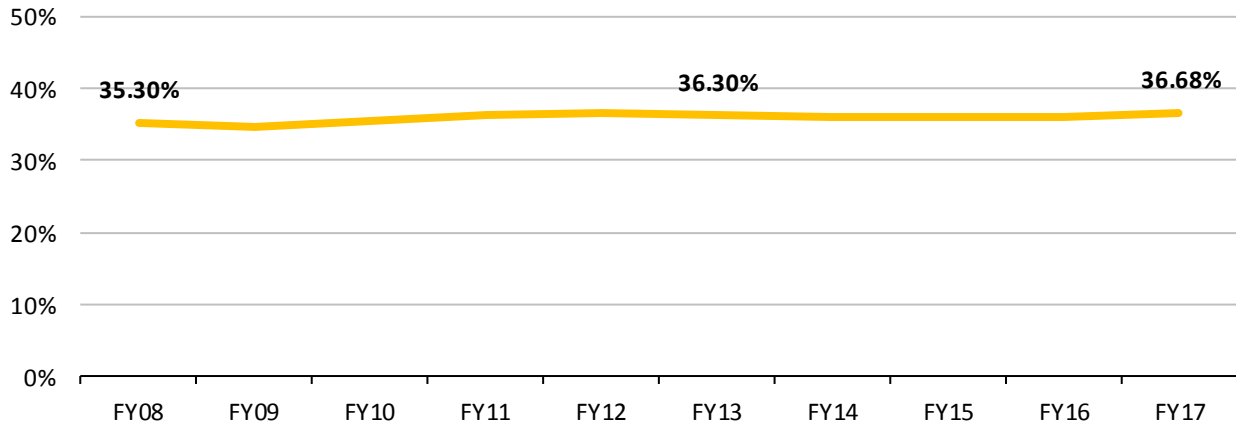
## Why is This Important to Oklahoma City?

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 16% over the past 10-year period and the number of employees grew 7.0%, resulting in a slight decrease in the ratio of employees per 1,000 citizens. However, because it remained relatively flat during the 5-year and 10-year period the indicator was rated neutral. To ensure that the ratio of employees to population is sufficient to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The most recent citizen survey, completed in August 2017, reported 57% of citizens were satisfied with city services. This number is the same as last year but has declined from FY16 when it was 67%. It was still significantly higher than the national average of 45% for other large cities in the U.S. which was a contributing factor in keeping this rating neutral.

**Formula:**

$$\frac{\text{Number of Municipal Employees}}{\text{Population} / 1,000}$$

# FRINGE BENEFITS



### What are Fringe Benefits?

The most common form of fringe benefits is retirement plans, health and life insurance, uniform allowance, and disability insurance. In addition, this analysis includes paid time off for vacation and sick leave. Benefits are a significant share of operating costs often exceeding 36% of employee compensation; and due to the complexity of tracking these costs, they can escalate unnoticed.

### Why is This Important to Oklahoma City?

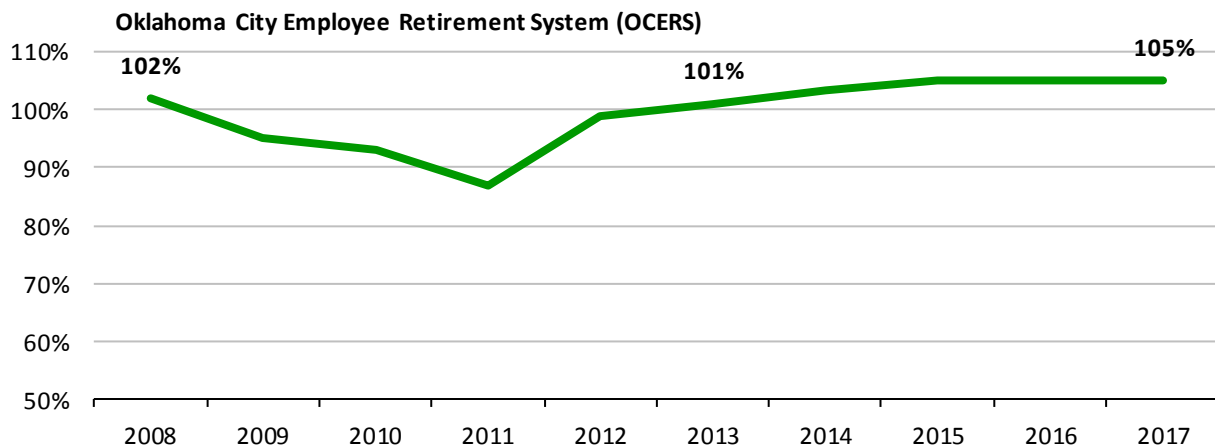
Fringe benefit expenditures as a percentage of total compensation were relatively steady over the last ten years averaging 36% per year. Staff has worked to keep benefit cost increases from growing too fast through a number of initiatives, such as higher co-pays on health plans, additional premium sharing and other benefits changes. In FY16, an employee medical clinic opened in an effort to help control the cost of health insurance plans. Staff will continue to monitor this important component of Oklahoma City’s compensation package.

In this analysis we accounted for the value of paid time off such as sick and vacation leave and included those costs as part of fringe benefits. The analysis also includes the contributions being made for retiree health insurance as a fringe benefit. Post -employment health insurance is currently made on a primarily 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. The Other Post-Employment Benefits Trust (OPEBT) was established in 2008 to begin to address the issue of future liability and funding levels for retiree health insurance. Since establishment of the OPEBT in 2008, the City has been making contributions in excess of pay as you go funding. At the end of FY17, OPEBT’s current liability exceeded \$440 million. Due to the steady percentage of benefits as a percentage of total compensation, the indicator remained neutral.

**Formula:**

$$\frac{\text{Fringe Benefit Expense}}{\text{Total Compensation (Benefits + Pay)}}$$

## PENSION FUNDING RATIO



### 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.

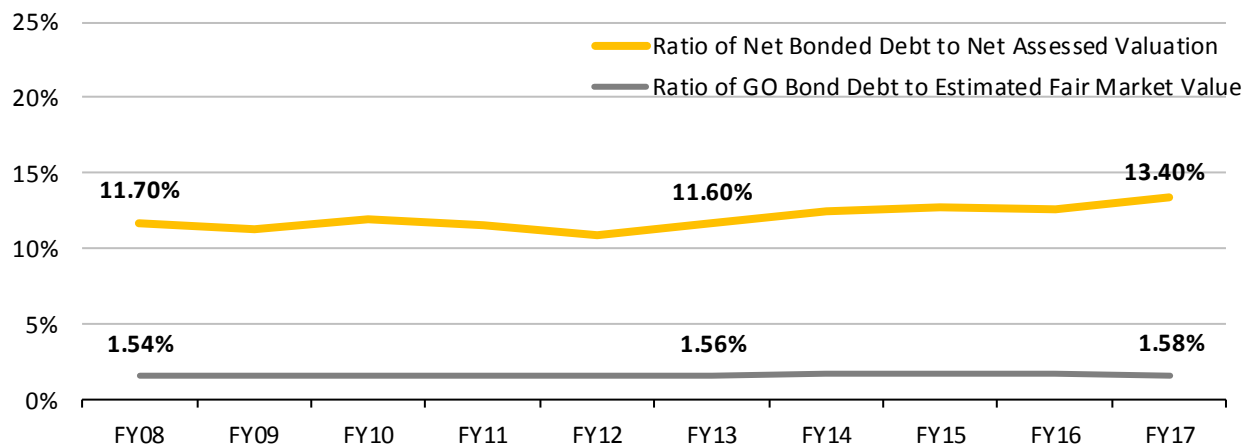
### Why is This Important to Oklahoma City?

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 covered by a separate pension system. In calendar year 2011, the OCERS actuarial funding ratio dropped to 87%, marking the third year in a row with 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 105% funding for the last three years the indicator is rated as positive. The City continues to make the actuarially recommended contributions to OCERS.

#### Formula:

Ratio Provided and Calculated by Pension Plan Actuaries

# LONG-TERM DEBT



### How is Long Term Debt Measured Here?

Long term debt for this analysis is examined by looking at the General Obligation net bonded debt ratio. The net bonded debt ratio 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.<sup>6</sup>

### Why is This Important to Oklahoma City?

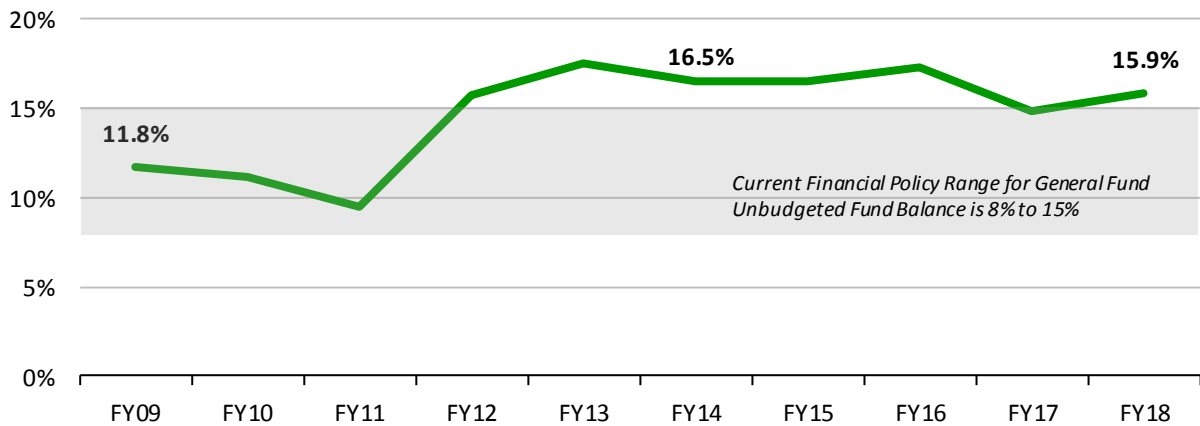
Oklahoma City’s long-term debt ratio has remained consistent from FY08 to FY13 averaging 11.5% with only slight variations. For the last four years, the ratio has averaged 12.8%. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than \$110 million for streets. Although the 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 13.4% in FY17 is viewed as being stable as a percentage of assessed valuation and is rated as neutral.

The second indicator, in gray, 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 which 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. 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, rather than the year-to-year changes which has stayed steady or neutral, averaging 1.6% annually.

**Formula:**

$$\frac{\text{Net General Obligation Bonded Debt (Bonds Outstanding as of June 30 less Reserve)}}{\text{Net Taxable Assessed Value}}$$

## FUND BALANCE



### 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 in order to maintain a positive fund balance. An unplanned decline in fund balance or continuing subsidies from fund balance to cover operating expenses will most likely mean the government will not be able to meet future needs.

### Why is This Important to Oklahoma City?

Prior to FY11, the target range for unbudgeted fund balance was 6-10% of the General Fund budget. The City began FY09 and FY10 exceeding the policy.<sup>7</sup> In FY10, significant revenue shortfalls caused by the downturn in the economy resulted in the use of fund balance to supplement recurring revenue in order to maintain services. Having fund balance to call on during the recession reaffirms the importance of having an adequate reserve. In FY11, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. Conservative fiscal management in the last five years has resulted in beginning fund balances that exceed target. At times City Council 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 the 8% to 15% range set by City policy and was rated positive.

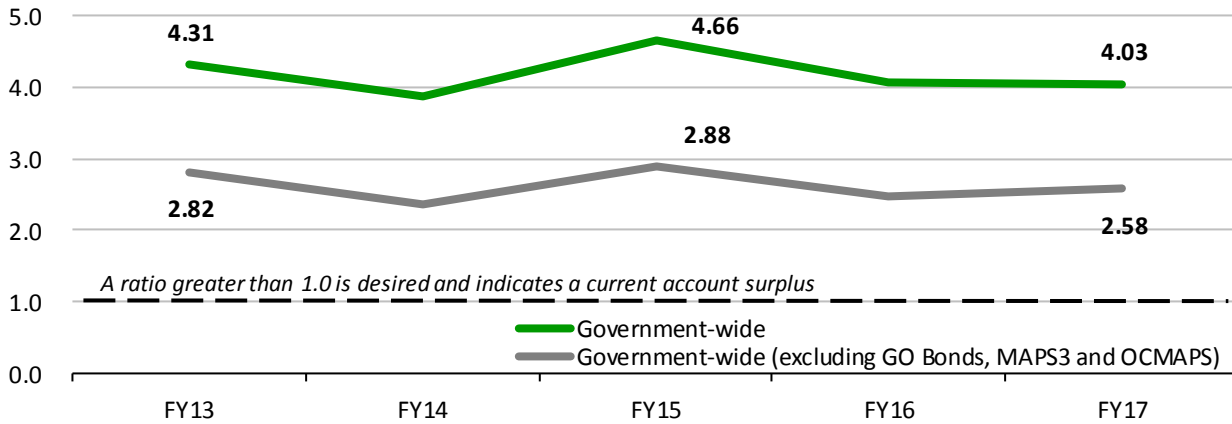
### Current Year Activity

The Finance Department will discuss possibly revising the City's financial policies by increasing the established range of fund balance to a minimum of two months of operating cost (approximately 16.6%) in accordance with the best practices established by the Government Officer's Finance Association.

#### Formula:

$$\frac{\text{Unbudgeted Fund Balance}}{\text{Budgeted Revenues}}$$

# LIQUIDITY



## 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 steady averaging 4.18 annually.<sup>8</sup> In FY14 the ratio declined due to completion of planned capital projects and then increased to 4.66 in FY15 as assets grew faster than liabilities. The change in FY16 and FY17 was due to liabilities growing faster than assets and largely attributed to the Oklahoma City Water Utilities Trust (OCWUT) as work began on the second Atoka pipeline. The ratio has remained very healthy over the last five years, as such this indicator is rated positive.

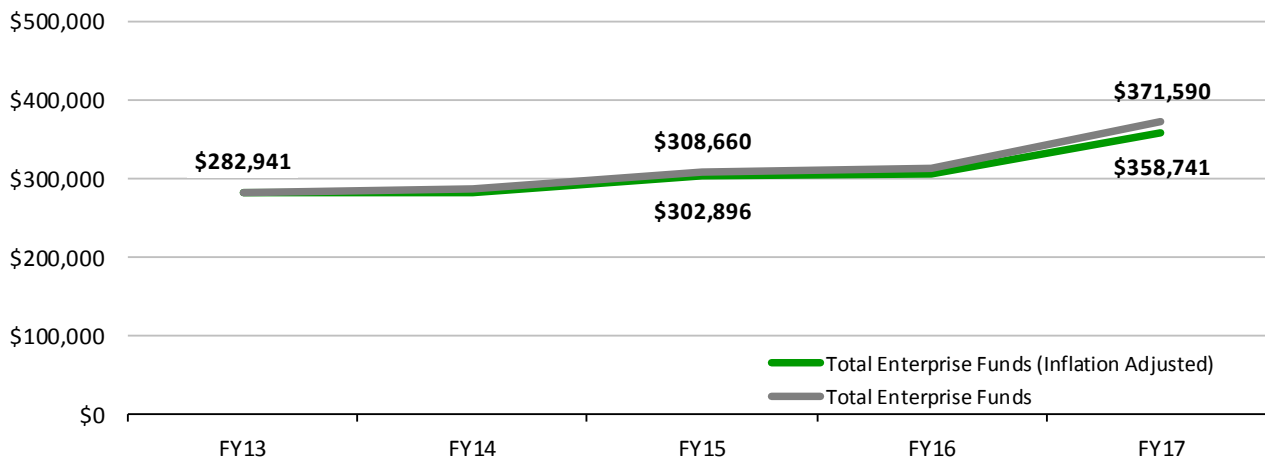
A secondary data set provides a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, instead it excludes three of the largest funds, General Obligation Bonds, MAPS 3, and OCMAPS, which are restricted to the purpose of funding capital projects. This “practical” liquidity rate has also trended positive during the five-year period and provides insight into our cash position for operations. It finished FY17 at 2.58 indicating that operational funding is also very healthy.

**Formula:**

$$\frac{\text{Cash and Current Investments}}{\text{Current Liabilities}}$$



## ENTERPRISE WORKING CAPITAL



### 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 at \$358 million, inflation adjusted, and a liquidity ratio of 2.54, 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 27% and the liquidity ratio remained well above the desired level of one, indicating a positive trend.

**Formulas:**

Enterprise Working Capital = Current Assets – Current Liabilities

Liquidity Ratio =  $\frac{\text{Cash and Current Investments}}{\text{Current Liabilities}}$

- 1 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, Forward to Evaluating Financial Condition: A Handbook for Local Government by Stephen J Gauthier. Washington DC: ICMA, 2003.v.
- 2 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, Evaluating Financial Condition: A Handbook for Local Government. Washington DC: ICMA, 2003.1.
- 3 Nollenberger 3.
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- 5 Nollenberger 32.
- 6 Nollenberger 26.
- 7 Nollenberger 41.
- 8 Nollenberger 23.
- 9 Nollenberger 51.
- 10 City of Oklahoma City Comprehensive Annual Financial Report, 2017.
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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 aligned 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. In order to share those successful outcomes and close the communication loop, 15 previous issues have been summarized beginning on page 85.

## 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 90. This year we are highlighting seven major issues for additional attention. Some of the eight are cross-cutting issues that impact multiple departments, such as capital maintenance costs and budget reductions. 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 43 issues that departments are facing, including the seven major issues highlighted. A complete list of the issues can be found on pages 97-98. 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 and/or Internet Sales 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. Enactment of national standards for streamlined Sales Tax collection, such as an Internet Sales Tax, would require federal legislation to put local merchants on equal footing with internet retailers.

## BY THE NUMBERS

6 NEW Successful Outcomes (15 Total)

7 Major Issues Highlighted

43 Financial Issues Identified by Departments

7 New Issues

The goal for this section of the forecast is to provide an *“early warning system”* about significant financial issues that are generally beyond the scope of the annual budget process.

## SUCCESSFUL OUTCOMES

new



## 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

new



## 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

new



## 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 by adding 81 more police officers, 39 more 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

**FUNDING SOURCE:**

General Fund; ¼ cent permanent sales tax increase

**PROJECTED REVENUE:**

\$26 million annually



## SUCCESSFUL OUTCOMES

new



### PUBLIC SAFETY FLEET

**DEPARTMENT:**  
Police & Fire

**OVERVIEW:**

Following approval of the one-cent Better Streets, Safer City Sales Tax by City voters in September 2017 the City Council adopted an ordinance based on state statute that amended the City’s use tax rate to be equal to the sales tax rate. The 27-month penny use tax is a continuation of the expiring MAPS 3 Use Tax, which has been used to fund public safety fleet replacement through FY18. This use tax extension is expected to fund public safety fleet needs, including in-vehicle mobile data computers (MDC) and communications equipment through FY21.

**STATUS:** Ordinance adopted by Council on October 10, 2017

**FUNDING SOURCE:**  
27-month penny sales tax

**REVENUE GENERATED:**  
\$29 million over 27-month collection period

new



### 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

new



### MUNICIPAL COURT

**DEPARTMENT:**  
Municipal Court

**OVERVIEW:**

The new Municipal Court Building was completed in September 2017 and funded largely from the 2007 General Obligation (GO) Bond Authorization. Supplemental funding from the Municipal Court Capital Improvement Program (CIP) Fund was used to equip the new building with fixtures, furnishings and technology that enhance and improve operational efficiency. The new 65,000 square foot, 3-story building provides an additional 22,137 of square feet. The modern building makes it more convenient for residents to conduct Court business.

**STATUS:**  
Opened to public October 2017

**FUNDING SOURCE:**  
GO Bonds, Courts CIP Fund, and MAPS 3

**COST:**  
\$22.8 million total with \$3.4 million funded by Municipal Court Capital Improvement Fund

## SUCCESSFUL OUTCOMES



## BODY WORN CAMERAS

**DEPARTMENT:**

Police

**OVERVIEW:**

By March of 2018, body worn cameras will have been issued to all patrol officers, gang enforcement and other uniform support units as a tool to document contacts with the public. The cameras capture video and audio recordings, which provide documentation and evidence of law enforcement activities including traffic stops, public contacts, emergency responses and critical incidents.

**STATUS:**

Pilot of 100 cameras implemented in 2016;  
Expanded to 345 cameras in 2018

**FUNDING SOURCE:**

Department of Justice Grant for cameras; Police Public Safety Sales Tax for camera accessories; General Fund for positions to support program

**COST:**

\$0.6 million for cameras and accessories  
\$0.4 million in annual operating cost



## BUS NIGHT SERVICE

**DEPARTMENT:**

Public Transportation & Parking

**OVERVIEW:**

The Public Transportation and Parking Department launched a pilot program in 2015 that extended bus service on two routes (11 and 23N) until midnight Monday through Friday with one-hour frequency. Due to the success of the pilot, night service was expanded to include two additional routes (5 and 13N). With four routes, night bus service is available on a crosstown route on the north side of the City, a crosstown route on the south side of the City, and routes traversing north to Memorial Road and south to Oklahoma City Community College.

**STATUS:**

Pilot Program implemented in 2015, expanded in January 2016. Includes four fixed routes and paratransit service.

**FUNDING SOURCE:**

Annual General Fund payment to Central Oklahoma Transportation and Parking Authority (COTPA)

**COST:**

\$670,000 annually



## COURT RECORDS SYSTEM

**DEPARTMENT:**

Municipal Court

**OVERVIEW:**

The new Municipal Court Management System (MCMS) replaced a 23-year-old legacy system. The implementation of the new system allowed the court to improve the efficiency and effectiveness of handling cases, while providing a path to eliminate paper. The advanced technology allowed the court to launch the first phase of E-citations in parking enforcement and offers the flexibility to expand and improve processes.

**STATUS:**

Implemented in September 2016

**FUNDING SOURCE:**

Police/Fire Equipment Sales Tax for system; General Fund for annual maintenance

**COST:**

\$2.1 million for system  
\$308,000 estimated for annual maintenance

## SUCCESSFUL OUTCOMES



### EMPLOYEE MEDICAL CLINIC

**DEPARTMENT:**  
Personnel

**OVERVIEW:**  
The employee medical clinic was a major component in support of the City’s wellness initiative and effort to control the cost of the health insurance plans. The clinic, operated by CareATC, provides non job-related primary care services to employees and non-Medicare eligible retirees. In its first 27 months of operations, the clinic had 9,280 visits from eligible participants.

**STATUS:**  
Clinic Opened in September 2015

**FUNDING SOURCE:**  
Oklahoma City Municipal Facilities Authority (OCMFA) and Oklahoma City Post Employment Benefits Trust (OPEBT)

**COST:**  
\$1,365,216  
Estimated Annual Operating Cost



### OPEB LIABILITY

**DEPARTMENT:**  
Personnel and Finance

**OVERVIEW:**  
To address the Other Post Employment Benefit (OPEB) liability, City Council approved two changes impacting the retiree health insurance subsidy. The first change increased the eligibility requirement for subsidized retiree health insurance to employees who have worked at least 15 years with the City and have reached age 60. The second change eliminated subsidized health insurance to employees hired after January 1, 2017 when they retire. Health Insurance would still be available, but they will have to pay the full premium.

**STATUS:**  
Increased eligibility effective January 1, 2017; Ending subsidized Retiree Health Insurance applies to employees hired after January 1, 2017

**FUNDING SOURCE:**  
All Operating Funds

**REDUCED LIABILITY:**  
\$90,000,000 projected reduction in liability in the next 10 years with eventual elimination of the liability



### IMPACT FEES

**DEPARTMENT:**  
Public Works & Parks

**OVERVIEW:**  
New development impact fees were established by Council on April 26, 2016 to help infrastructure keep pace with growth in Oklahoma. The fees are charged on a per-square-foot basis for new residential and commercial development projects and will be used to build infrastructure needed to serve the new development. The new impact fees are for streets and parks systems.

Using impact fees to help pay for new infrastructure allows more revenue from general obligation bonds to be spent on improvements instead of new construction.

**STATUS:** Development Fees effective January 1, 2017

**REVENUE GENERATED:**  
From January 1 through December 15, 2017:  
\$0.7 Million for Parks  
\$3.4 Million for Streets  
\$0.3 Million for Trails



## SUCCESSFUL OUTCOMES



## PRIMARY DATA CENTER

**DEPARTMENT:**

Information Technology

**OVERVIEW:**

The Primary Data Center was constructed to ensure city operations and finances that depend on the City's network experience minimal interruptions. The facility meets industry standards for a Tier 3 data center meaning it has redundant components, dual-powered equipment and multiple uplinks. As a stand-alone building it is physically separated from the backup data center and was designed per FEMA 361 to withstand tornadoes and severe storm events.

**STATUS:**

Contract Awarded: June 2015  
Final Acceptance: August 15, 2017

**FUNDING SOURCE:**

Capital Improvement Fund

**COST:**

\$2.2 Million  
Building construction



## WATER CONSERVATION

**DEPARTMENT:**

Utilities

**OVERVIEW:**

Residents and businesses are encouraged to conserve water indoors and outdoors by supporting Oklahoma City's Water Conservation Plan, adopted July 2017 and recognized at the Governor's Water Conference in November 2017 with a Water for 2060 Excellence Award. The Plan includes strategies to expand outreach and education, encourage water efficiency in City projects and irrigation installations citywide, revise landscape ordinance to include irrigation system design installation and contractor registration, certification, and training, incorporate multifamily, commercial, and industrial sectors, and expand efforts through local partnerships throughout the community.

**STATUS:**

Ongoing

**FUNDING SOURCE:**

OCWUT rate revenues

**COST:**

\$700,000 annually



## WATER RIGHTS SETTLEMENT

**DEPARTMENT:**

Utilities

**OVERVIEW:**

The Oklahoma City Water Utilities Trust (OCWUT) will have access to water from Sardis Lake, in Southeast Oklahoma, as the result of a settlement agreement reached on August 16, 2016 with the Chickasaw and Choctaw Nations of Oklahoma, OCWUT, The City of Oklahoma City, and the State of Oklahoma Water Resources Board. The agreement will be governed by a system of lake level release restrictions and will meet raw water supply growth needs for approximately sixty years.

**STATUS:**

Settlement Agreement  
August 16, 2016; Signed by  
President Obama December 16,  
2016

**FUNDING SOURCE:**

OCWUT

**COST:**

\$12.5 million by OCWUT to the  
State of Oklahoma pursuant to  
Water Storage Transfer  
Agreement, \$5 million to  
Conservation Projections Funds,  
and annual assessment of Sardis  
Lake operational and  
maintenance costs to the US  
Corp of Engineers

new

## HIGHLIGHTED ISSUE

## AMERICAN INDIAN CULTURAL CENTER AND MUSEUM

The American Indian Cultural Center and Museum (AICCM) started in 1994 when the State of Oklahoma created the Native American Cultural and Educational Authority (NACEA) who would build and operate the AICMM. 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 AICCM 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 AICCM, 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 AICCM. In 2016, the City and the State entered into an agreement for the completion of the AICCM, and for the City operate and maintain the facility. The City also entered into an agreement with 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 AICCM. AICCM Land Development has agreed to provide \$14 million for operations of the AICCM, including significant pre-opening costs, and to provide up to \$15 million for unexpected costs that exceed the construction budget. Plans are being updated and construction is expected to start once the state bonds are sold. The City funding is provided toward completion costs and is payable 12 months after the start of construction.

## POSSIBLE DIRECTION AND NEXT STEPS

- **Construction Funding.** The current plan is for the City to fund its \$9 million contribution toward construction through an internal loan and to repay the loan through the General Fund from sales tax generated by the AICCM and surrounding development. In addition to the costs for repayment, the General Fund will be responsible for any operations costs that are in excess of the amount committed by the Chickasaw Nation.
- **Agreements for Completion.**
  - **State Agreement.** The City and the State are working toward closing on their agreements, which include the post-closing operating and maintenance agreement and the purchase agreement for the undeveloped property surrounding the AICCM.
  - **AICCM Land Development Agreement.** The City and AICCM Land Development are working toward closing on their agreement for funding to support operations and maintenance of the AICCM, purchase of the undeveloped property surrounding the AICCM, and funding support for the completion cost for the AICCM.
  - **Operations Contract.** At the request of the City, the Oklahoma City Economic Development Trust is negotiating a contract with the AICCM Foundation for operations and maintenance of the AICCM.
- **Funding for Operations and Maintenance.** After the AICCM is completed, the City will be responsible for the operations and maintenance of the AICCM. The OCEDT will manage the contract with the AICCM Foundation. The Foundation has committed to raising funds for the construction of the project and to provide for future operations.
- **Potential Impact on Operating Funds.** The Foundation has committed to raising funds to provide for the operation and maintenance costs of the AICCM in excess of revenues generated by the facility. Any operating deficit that exceeds available funds from the AICCM Foundation would be the responsibility of the City and would place pressure on the City's General Fund.

## 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, and the issuance of General Obligation Bonds. As the facilities age, capital maintenance is needed to extend the life of the facility. The MAPS Use Tax Fund used to fund operations and maintenance for the original MAPS Projects is near depletion and a new funding source will be needed to fund capital maintenance on the original MAPS projects, the MAPS 3 projects after they are put into public use, and projects funded through General Obligation Bonds and other capital funds.

**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, improve Oklahoma City's national image and provide new and upgraded cultural, sports, recreation, entertaining and convention facilities. A MAPS Use Tax was enacted at the same time as the MAPS Sales Tax with funds being set aside for operating, maintaining, and replacing capital as needed on the MAPS projects. These original nine MAPS projects have been in public use for 10 to 20 years and need capital maintenance that is beyond the remaining fund balance from the MAPS Use Tax.

**General Obligation Bond and Capital Projects.** The 2007 General Obligation Bond Authorization provided funding for several new facilities including a new Police Headquarters, a new Municipal Court, new fire stations and other municipal facilities. The 2017 General Obligation Bond Authorization will fund new fire stations, a new Police and Fire training facility, a Police Aviation facility and other facility improvements throughout the City. A funding source has not been identified to provide for capital maintenance on these facilities.

**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.

## POSSIBLE DIRECTION AND NEXT STEPS

- **General Fund.** We could budget a percentage of the annual General Fund Budget for Capital Maintenance and Fleet Replacement similar to how contingency is budgeted. In FY18, Capital maintenance and fleet replacement is budgeted at \$4.2 million or 1%.
- **MAPS 3 Projects.** MAPS 3 Sales Tax collections exceeded original projections which resulted in surplus funding. A percentage of surplus funding could be reserved for future capital maintenance on MAPS 3 projects.
- **General Obligation Bonds.** Maximizing the use of property taxes to fund capital maintenance, through General Obligation Bonds, for capital maintenance on facilities may be an opportunity to provide needed funding while reducing pressure on the General Fund which funds day-to-day operations.
- **Facility Charge.** Additional facility charges could be assessed to tickets and admissions at venues used by the public. The proceeds from the facility charge would be remitted to the City for future capital maintenance needs at those facilities. Facility charges have become more common and are typically added at the end of a retail transaction when sales tax is charged. By segregating Fees and Taxes from the ticket or admission fee, facility operators, which may be third party, are able to provide transparency in the transactions. Facility charges are currently added to tickets sold at the Cox Convention Center, Chesapeake Energy Arena, Chickasaw Bricktown Ballpark, and the Civic Center.



## HIGHLIGHTED ISSUE

## IMPACT OF BUDGET REDUCTIONS ON OPERATIONS

Cyclical economic changes are expected and the City has weathered most downturns with minimal disruption to services through strong, conservative fiscal management. However, FY16 and FY17 General Fund revenue declines were longer than previous cyclical changes. For several years in a row, including twice in FY17, departments were asked to cut their General Fund budgets in order to balance the budget as required by state law. During that time, staff formulated strategies that maximized resources, leveraged technology to gain efficiencies, and ensured city services were available at a level appropriate to the needs of the community. However, the strain of those previous reductions has become evident across many departments and staff is beginning to ask for restorations of previous cuts in order to return to previous service levels, respond to the demand for enhanced services, and even new services.

In FY18, revenue collections have rebounded from the decline experienced in the prior two fiscal years. Although, growth is projected in the FY18 General Fund budget collections are expected to be only slightly lower than FY15 (excluding the permanent ¼ cent sales tax increase that takes effect on January 1, 2018 which is largely allocated to public safety).

## POSSIBLE DIRECTION AND NEXT STEPS

- **Support State Efforts to Expand Sales Tax Base.** Expanding sales tax to services that are currently exempt under State Law would generate additional revenue. Sales Tax is the largest revenue source for the City's day-to-day operations and provides 53% of the funding for the General Fund Budget.
- **Support Efforts to Allow Property Tax for Operations.** Oklahoma is the only state that prohibits municipalities from using property tax for operations. Property tax can only be used to repay bond debt or court judgments. Allowing the City access to property tax for operations would diversify City revenues and provide a stable source of revenue.

## 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 \$1.3 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. Over the next five years, the Trust will construct a 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 \$700 million. The FY2019-2023 OCWUT water capital plan is \$912.85 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 recent 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 \$60 million. The FY2019-2023 OCWUT wastewater capital plan is \$366.18 million.

**Solid Waste Utility – Recycling Program**

The Oklahoma City Environmental Assistance Trust awarded a contract for the purchase and delivery of large size rolling recycling carts this spring at an estimated cost of \$11 million. Expenditures will occur in the coming months as these deliveries are completed. From FY2019-2023, the total OCEAT solid waste capital plan is estimated at \$24 million.

**POSSIBLE DIRECTION AND NEXT STEPS**

- **Rate Adjustments.** To meet the financial requirements of the growing capital and operating plans to meet utility service needs, the Council approved a four-year rate plan beginning January 1, 2018 through 2021. As these projects materialize and actual costs are known, utilities staff will monitor the financial viability of the OCWUT and recommend adjustment for future years as warranted at that time.



## HIGHLIGHTED ISSUE

# MAPS 3 OPERATING COSTS

Ongoing funding sources for operation of MAPS 3 projects have not been fully identified. While \$777 million is available for the construction of projects designed to improve the quality of life in Oklahoma City, funding for some operations still need to be identified. Costs and exact types of expenses have not been explicitly identified, but it is anticipated that some could be significant. The focus for operating costs has been on two projects: the Oklahoma City Streetcar which could need up to \$4 million annually for operations and the Scissortail Park, located downtown, which could need more than \$2 million annually for operations.

### POSSIBLE DIRECTION AND NEXT STEPS

- **User Fees and Sponsorships.** It is anticipated that venue operators will cover operating expenses for the Oklahoma River improvements, Fairgrounds improvements, and Senior Health and Wellness Centers through user fees and sponsorships.
- **Hotel Tax Increase.** An increase in the Hotel Tax could be used to supplement operating costs for the Oklahoma City Streetcar and the new Convention Center. The Hotel Tax is currently 5.5%, in addition to Sales Tax, and has generated an average of \$14.5 million annually for the last three years. Current Hotel Tax collections are restricted to funding the Convention and Visitors Bureau contract, capital improvements at the Fairgrounds, and event promotion and sponsorship. A tax increase and allocation of collected hotel tax to operation of the streetcar and convention center would require a vote by citizens.

The Central Oklahoma Transportation and Parking Authority (COTPA) has contracted with Herzog Transit Services for the operation and maintenance of the Oklahoma City Streetcar system. Costs associated with starting up operations begin this year and are estimated to grow to \$4.5 million for the first full year of operations in FY20.

- **Parking District or Business Improvement District.** A parking district or business improvement district in the area around Scissortail Park could generate revenue that would help offset annual operating costs. Revenue generation may be limited until the area fully develops.
- **Private Partnerships.** A private/public partnership has been established with the Scissortail Park Foundation to operate and manage the Scissortail Park located downtown. The Foundation, as a private partner, may be able to supplement funding for operating Scissortail Park by generating revenue through membership fees, sponsorships, and philanthropy. The Foundation anticipates a grand opening of the upper park in September 2019.
- **General Fund Support.** The General Fund may have additional pressure to fund annual maintenance costs on sidewalks and trails.



## HIGHLIGHTED ISSUE

**OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY**

The City and its related trusts have a number of 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 \$440 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.
- *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**

- **Limit subsidized insurance to Medicare Advantage Plans.** Retirees could still access the indemnity and HMO plans if they were willing to pay the full amount.

## 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 City 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 and the introduction of night bus routes 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. 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, transit service to the airport, expanded night service and the introduction of Sunday bus service. In addition, new transit options such as bus rapid transit for commuters, leveraging transportation network companies for first and last mile connections and growing ride share are all needed for Oklahoma City residents to benefit from robust public transportation.

In recently approved legislation, Congress is requiring transit systems to develop a Transit Asset Management Plan that lays out 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, 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 capital maintenance sinking fund for future streetcar systems, vehicle and guideway capital maintenance.

## POSSIBLE DIRECTION AND NEXT STEPS

new



- **Dedicated Funding for Public Transportation.** Continuing support and participation in developing a Regional Transit Authority could lead to a voter approved initiative for dedicated public transportation funding for Oklahoma City and the rest of the region.
- **New Motor Fuel Tax.** A new motor fuel tax could result in increases in local funding for transit operations.



## DEPARTMENT LIST OF FORECAST ISSUES

Department	Issue	Facility	Fleet	Personnel	Services	Materials	Page No.
Airports	Construction of Additional Public Parking	●					99
	Maintain and Improve Existing Building Systems and Aging Infrastructure	●					99
	Terminal Expansion and Building Improvements	●					99
Auditor's Office	Contracted Information Systems Audits				●		99
	Timely Response to Risk Assessments			●			99
City Clerk's Office	Central Facility for City Records, Phase II			●		●	100
	Technology Needs			●	●		100
Development Services	Improving Development Center Customer Service			●			100
	Improving Animal Shelter Live Release Rate			●	●	●	101
	Maintaining Code Enforcement Services			●			101
Finance	American Indian Cultural Center and Museum (AICCM)	●			●		90
	Facility Capital Maintenance Cost	●			●	●	91
	Impact of Budget Reductions on Operations	●	●	●	●	●	92
	MAPS 3 Operating Costs		●	●	●	●	94
	Other Post-Employment Benefits (OPEB) Liability			●			95
Fire	Minimum Staffing Levels			●			101
	Fire Capital Maintenance	●			●	●	102
General Services	Americans with Disability Act (ADA) Compliance	●				●	102
	Facility Asset Management			●			102
	Fleet Services		●	●			103
Information Technology	Employee Recruiting, Retention, and Succession Planning			●			103
Municipal Counselor's Office	Emerging and Complex Areas of Law			●	●	●	103
	Increased Operating Costs				●	●	104
Municipal Court	Business Process Changes			●	●	●	104
Parks and Recreation	Operating and Capital Maintenance Costs			●	●	●	104
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## DEPARTMENT LIST OF FORECAST ISSUES

Department	Issue	Facility	Fleet	Personnel	Services	Materials	Page No.
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	Occupational Health Clinic	●				●	106
	Other Post-Employment Benefits (OPEB) Liability			●			95
	 Classification and Compensation Study			●			107
Planning	Implementation of Comprehensive Plan			●	●		107
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Public Transportation and Parking	Bus Stop Improvements				●	●	110
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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 FY16 and FY17, parking exceeded 85% capacity by 78% and 72% respectively. Garage parking between 80% to 84% of capacity in FY16 and FY17 is 9.32% and 11.51 % respectively. More passengers seem to prefer garage parking given Oklahoma City's propensity for severe weather and convenience to the tunnel walkway to enter the terminal. An interesting phenomena is in the last three years parking transactions in all facilities has dropped 6.5% while passenger enplanements has continued to increase year-over-year. While garage parking is obviously a preference, constructing a third parking garage with dedicated vehicle ramps may not be financially feasible as we would not fill the new garage with new parkers, but rather displaced parkers. Even though garage parking does reach full capacity, the days per year the parking garages are closed is diminishing. It may be more prudent to construct additional covered surface parking with dedicated shuttle service.

### **Maintain and Improve Existing Building Systems and Aging Infrastructure**

Some of the Airports building systems and infrastructure at Will Rogers World Airport (WRWA), Wiley Post Airport (WPA), and Clarence E. Page Airport are original and date back to the 1960's. The continued development at the City's airports is beginning to put a strain on infrastructure such as storm drainage systems, building systems, and various pavements. Aging building systems and facilities will continue to be evaluated to determine required maintenance, replacement or disposal. A priority is to evaluate the Airports ingress and egress roadways, the Terminal upper level passenger drop off bridge deck, and airfield runways and taxiways.

### **Terminal Expansion and Building Improvements**

Air service enhancements such as new non-stop destinations and increasing flight frequency to some cities has resulted in an increase in boarding passengers at Will Rogers World Airport by 1% per year on average. These enhancements along with recent airline mergers and requirements for passenger and baggage screening are affecting passenger flow and circulation in the terminal. Also, the central terminal has some facility constraints that, if not addressed, could negatively affect customer service and convenience. Steady passenger growth along with facility constraints has prompted the Airport to begin design of a 150,000-square foot terminal expansion that will add four gates, consolidate existing security checkpoints with a new eight lane checkpoint, and increase public circulation areas. The existing checkpoints will be converted to meet and greet lounges, eliminating congestion at the checkpoint queue and exit lanes. The expansion will address other functional needs such as adding an additional office for Airport Police, relocating Airport Operations in the new expansion area, and creating a permanent location for the YMCA Military Welcome Center.

## 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

### Central Facility for City Records, Phase II

The September 12, 2017 Bond Issue ballot included the City Clerk's Office project, a Central Facility for City Records. The parameters of the project include the facility structure but did not encompass the materials and personnel needed to equip 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. The second phase of this project requires data storage and computers, shelving and archival boxes, office furniture, and additional Records Management staff.

### Technology Needs

- Agenda Management Program
  - Continued enhancement of the agenda management program is needed to further develop the electronic capabilities of the system and reduce the dependency on paper and staff. Mobile access, electronic access for board members and a voting information system are all high priorities for users. Mobile access will give users increased accessibility to agenda items during the routing process from mobile devices such as mobile phones and tablets. Electronic access for board members gives board members access to Agenda and packet materials from tablets with the ability to bookmark and make notes without printing the materials. The voting information system will automate the process of board members making motions and voting on items. This information will then integrate with the minutes application reducing the manual entry required to produce the minutes document. It also has a built-in feature to manage public speakers.
- Records Program
  - As the Central Facility for City Records comes online, additional electronic storage and computers will be needed to operate the facility as detailed above.
- Information Program
  - As the number of record requests received each year continues to increase, staff has an increased burden to process and distribute the request. With recent budget cuts and loss of staff a more efficient program to manage record requests and the fulfillment of the process is needed. This software will help further automate the process, and include all the appropriate approval channels for redactions, attachments and request fulfillment.
- Bidding Program
  - Integration of prequalification information with Bidsync is needed to ensure that contractors submitting bids meet the qualifications required. This addition would enable the electronic bidding system to reject unqualified bids without the need for staff review.

## DEVELOPMENT SERVICES



### Improving Development Center Customer Service

Customer complaints concerning wait times on phone calls and service at the counter have increased due to lost positions from budget reductions. Without restoration of staffing, customer service levels will continue to fall short of expectations which includes providing a one day turnaround, 90% of the time, for construction inspections and timely review of commercial new construction and remodel plans by Plan Review. The Development Center takes pride in providing great customer service. In its FY17 and FY18 budgets, Plan Review lost two positions, which represents 12% of their workforce. Performance for review times have suffered as a result. Permits and Licensing have also had a 12% reduction in staffing over this same period but have continued to cashier \$11 million in permit and licensing fees.

### Improving Animal Shelter Live Release Rate

Obtaining a 75% live release rate is the top priority for Animal Welfare. While continued improvement has been made toward this goal, it still has not been reached. The live release rate reached as high as 73% in FY16, but declined to 70% in FY17. Keys to reaching this goal are lowering animal intakes and increasing the number of animals adopted or transferred out. Increased staff support is needed to maintain and increase these programs. Central to that support are funding for positions that were implemented through grant funding. These include a part-time Volunteer Coordinator, Foster Coordinator and Transfer Coordinator. In addition to these coordinator positions, Animal Welfare lost four full-time positions in FY17 and FY18 budget reductions. These losses stress remaining staff and negatively impact the live release rate.



new

### Maintaining Code Enforcement Services

Due to budget reductions, Code Enforcement has cut 9 positions, of which 8 were field inspectors. The loss of budgeted positions has made it difficult for staff to keep pace with citizen complaints as well as maintaining city-wide proactive property maintenance (as part of the Abandoned Buildings Ordinance) and yard-parking enforcement. The reduction in staffing is also compounded when staff is out for any reason, as there is no capacity to pick up work assignments, even on a short-term basis. Management is addressing staffing reductions through technology improvements and working toward take-home vehicles. However, if staffing levels are not addressed, Code Enforcement may not be able to maintain acceptable service levels even though Code Enforcement continues to rate as a high priority for Oklahoma City residents.

## FINANCE

new

**American Indian Cultural Center and Museum** (*Highlighted Issue – Page 90 for additional information*)

**Facility Capital Maintenance Costs** (*Highlighted Issue – See page 91 for additional information*)

**Impact of Budget Reduction on Operations** (*Highlighted Issue – See page 92 for additional information*)

**MAPS 3 Operating Costs** (*Highlighted Issue – See page 94 for additional information*)

**Retiree Health Benefits - OPEB** (*See page 95 for additional information*)

## FIRE

new

### Minimum Staffing Levels

Personnel costs take up almost 90% of the annual Fire Department budget making staffing costs the number one budget challenge; more specifically, overtime costs related to calling firefighters back to work to meet minimum staffing requirements.

For the Suppression Line of Business to operate the 83 pieces of apparatus strategically located throughout the City, an assigned staffing level of 290 personnel is required for each of the three 24-hour shifts (226 personnel to staff apparatus and 62-day off slots). The apparatus staffing level of 226 personnel is the minimum number of personnel needed based on the staffing model in the Collective Bargaining Agreement (CBA). An additional 62 personnel are scheduled each day to comply with an arbitrator's ruling that requires the department guarantee at least 62 day-off slots each shift for personal leave which does not include sick leave and/or on the job injury leave, etc. Vacancies and long-term leave are not counted as part of the 62-day off slots, which does not reduce the number of day off slots that personnel can schedule off. When unscheduled leave such as sick leave or on-the-job injury, exceed the 62 designated slots, firefighters are called back to work, and paid overtime, until minimum staffing of 226 can be met.

### Facility Capital Maintenance

In 2015, MA+ Architecture provided a comprehensive assessment of 43 fire department facilities of various ages 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 a modern fire station standard. Of this total cost, the higher priority items were estimated to be over \$8 million. Three fire stations identified in the study as needing to be rebuilt were included in the September 2017 GO Bond Authorization. In addition, some of the major suggested repairs, including some HVAC and roof replacements are completed or in progress. However, additional funds will be needed to complete many of the priority and urgent repairs to ensure firefighters operate out of the safest and healthiest facilities possible.

## GENERAL SERVICES

### Americans with Disabilities Act (ADA) Compliance

The greatest barrier to employment for persons with disabilities is lack of accessible transportation. Embark has worked diligently to make all their buses and vehicles accessible and has developed agreements to make sure all new street furniture (benches and shelters) are accessible, but the City’s sidewalks are often inaccessible for bus riders with disabilities.

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 of our citizens. At busy intersections the absence of Audible Pedestrian Signals (APS) exacerbates the difficulty of access. Many neighborhoods are not connected by sidewalk to the sidewalks along arterial streets, which further limits citizen access to goods and services and places of public accommodation. Failure to act on this issue will delay achieving the City Council’s priority of “*Developing a Transportation System that Works for All Citizens*”.

### 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 30 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 95,293 square feet per FTE. The number of facilities has increased by seven (7) to a total of 259. The new facilities include the Municipal Courts Building, Streets Maintenance Division Crew Room, Street Maintenance Division Warehouse, General Services Department Building, Traffic Operations Sign Shop, Fire Stations #21 and #23. The total square footage of these facilities is 151,876. 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 building that have been replaced until they are sold or demolished. Staffing shortages due to both vacancies, the inability to recruit qualified applicants, and continued budget reductions will continue to contribute to the under-staffing issue. 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 move from preventive maintenance to the more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Nine additional licensed trades’ people 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.

General Services also needs funding re-instated to address discretionary cleaning, carpet cleaning, hard surface floor treatments and window washing in all downtown campus, Central Maintenance Facility and Southwest Library sites.

### Fleet Services

The average age of the general fleet has the potential to become an issue during the next five years. Aging vehicles require more maintenance, which means they are out of service more often and cost more to operate. When vehicles are out of service, the functions they support cannot be carried out resulting in lower levels of service to citizens. Fleet Services Division staff has developed a ten-year plan which focuses on replacing those vehicles and equipment that have a maintenance history that has proven to be the most costly to maintain. Funding for general fleet replacement should be increased significantly from the current FY 2018 budget of \$3.1 million in order for the plan to be at least partially implemented.

Fleet Services continues to have difficulty recruiting qualified applicants for Master Mechanic positions. Master Mechanics are the most prevalent and most important classification in the Fleet Services Divisions continual effort to maintain vehicles / equipment and in turn maintain a high level of vehicle / equipment uptime and availability. Simply stated, the current compensation scale offered by the City is not comparable to that of the private sector.

## INFORMATION TECHNOLOGY



### Employee Recruiting, Retention, and Succession Planning

One of the highest priorities for the Information Technology (IT) Department is to protect City systems and data through Cyber security. As technology usage expands in the City and data moves to on-line cloud storage, maintaining security is becoming increasingly complex. Additionally, cyber threats continue to increase and become more sophisticated.

Due to competition from the private sector, the availability of highly skilled individuals is very low. It has been a difficult balance to provide required cyber-security training to staff and retain the individuals long-term as staff has been recruited by the private sector and left the City. During the next five-years IT could see significant struggles with hiring and retaining knowledgeable and experienced cybersecurity staff. To address this issue, IT has discussed creating specific job titles and ranges for technology security positions with Personnel.

Recent budget reductions have resulted in reactive staff adjustments which are not conducive to long-term succession planning strategies. This, combined with increases in workload due to increased activity, increases in scope and expectations, or additional mandates for regulated work, has put a notable strain on existing staff.

## MUNICIPAL COUNSELOR'S OFFICE

### Emerging and Complex Areas of Law

Due to increasing client needs in new projects, emerging and complex areas of law, labor and employment issues and economic development programs, the Municipal Counselor's Office has committed more attorneys to focus on specific areas and spread other attorney resources more thinly to guard against gaps in service in more traditional areas of municipal law. To maintain the same level of quality service, the Municipal Counselor's Office has begun a restructuring of the organization and will need to re-classify certain positions that are currently under-classified for the level of service provision. The Personnel Department is being consulted regarding pay plan modifications to address those issues and future recruitment and retention.

In FY17 the Municipal Counselor's Office lost three attorneys due to budget cuts. The positions were not vacant and the work performed by those attorneys has been absorbed by seven other attorneys in addition to their regular work. The Municipal Counselor's Office will have significant difficulty in providing legal services to all City Departments, Trusts and Commissions if additional budget reductions are required. In addition to recovering the three lost attorney positions, two new staff positions are needed and have been requested for several years: an Assistant Municipal Counselor I in the Labor and Employment Legal Services Line of Business and, one full-time Legal Secretary in the Civil Litigation Line of Business.

**Increased Operating Costs**

Certain operational expenses, particularly litigation/court costs, continue to increase annually and fluctuate from year to year. Office copiers and scanners will be in need of replacement or purchase over the next few years at a projected cost of approximately \$82,662.

## MUNICIPAL COURT

**Business Process Changes**

Municipal Court implemented the new Court Records Management System in September 2016. The implementation of the new system allowed the court to improve efficiency and effectiveness of handling cases, while providing a path to eliminate paper. Phase I of the new system included Electronic Citation and Parking Software which is used by the Parking Enforcement Division of Oklahoma City Police Department. Phase II of the Electronic Citation will be implemented in FY18 for uniform citations. Municipal Court would like to offer the Electronic Citation issuance system to the Code Enforcement and Animal Welfare Programs. However, funding will be needed to purchase additional handheld devices and associated maintenance costs.

The new Court Records Management System affords Municipal Court the opportunity to enhance services as technology advances. In the future, Municipal Court would like to offer an automated notification service to our court patrons to remind them of upcoming court dates. The estimated cost to send an automated text notification is \$0.20 per message. We estimate the initial annual expense to be between \$40,000 and \$60,000. As use of this type of technology expands, the expense will increase. As additional system enhancements are implemented, there will be additional hardware, software and maintenance expenses.

In addition to new the new records system, Criminal Justice Reform continues to play a vital role in the process of addressing cases. In July 2017, a Community Relations Coordinator position was added to develop and implement programs to help people overcome fear, uncertainty and barriers to resolving their Oklahoma City Municipal Court cases. The Community Relations Coordinator is responsible for educating the community on reform efforts implemented in Oklahoma City Municipal Court and options available to resolve their court cases. Reform efforts continue to add processes and change our business. An example is the 33 additional indigency hearing dockets that are being held monthly. Additional court and records clerks are needed to absorb the additional responsibilities.

To assist indigent defendants, the City has a contractual agreement with Legal Aid of Oklahoma to provide legal representation for up to 1,723 eligible indigent defendants charged in Oklahoma City Municipal Court. Currently, they are providing legal representation to all eligible juvenile defendants and indigent adult defendants charged with offenses carrying the penalty of incarceration. However, indigent jailed defendants that are charged with traffic or criminal offenses are not afforded the opportunity to speak with Legal Aid about their cases. As reform efforts continue, additional funding not to exceed \$250,000 is desired to go the extra step to offer all jailed/indigent defendants the opportunity to be represented or speak with a public defender.

## PARKS AND RECREATION

**Operating and Capital Maintenance Costs**

As Oklahoma City continues to add new and exciting elements of recreational opportunities for citizens, ongoing maintenance dollars for those new elements have not been added proportionately to the operating budget. Capital projects such as MAPS, Project 180, General Obligation 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 2017 Citizen Survey, citizens established their opportunities for improvement in the Parks Department as:

- 1- Walking and biking trails in the City
- 2- Quality of City parks near neighborhoods
- 3- City recreation centers
- 4- Maintenance of City parks

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.

### Infrastructure

We are aware the benefits of recreation boost quality of life, health and wellness, social services, economic impact, community building, conservation, and social equity. Recreation, Health and Wellness helps connect residents with opportunities in athletic programs, teen activities, active adult activities, and much more. These services provide a foundation for the physical, social, economic, and environmental viability and well-being of the community.

The Civic Center Music Hall is entering its 18th year since the facility was partially renovated through the original MAPS funding and is experiencing deterioration and failure of systems. A Utilization Study evaluated the spaces not renovated in the original MAPS and recommended a phased approach to renovations that would provide a minimal impact on patrons and resident companies. The five-year forecast emphasizes the importance of necessary repairs and replacement of aging equipment required to maintain the 78-year-old facility. The study recommended improvements over five phases at an estimated cost of \$53 million, adjusted with annual construction increases. Using a 3% inflation/construction escalation for those recommended improvements, today that cost would be estimated at \$58 million. The voter approved 2017 GO Bond proposition funds a portion of these identified needs, however more renovations will be required in the future and a funding source has not been identified. These renovations will add new opportunities for programming by upgrading underutilized spaces and improve the ability to create additional revenue and draw new performance opportunities.



*The Freede Little Theater inside the Civic Center Music Hall.*

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 citizens' desire to have well-maintained parks and to provide quality opportunities to promote healthy living. Convenient, attractive and relevant options for citizens 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 the Civic Center Music Hall are in immediate need of improvements. Most have limited programmable space and usability that meet current trends and needs. By strategically targeting some existing centers and facilities for renovation and upgrades, the following will be accomplished:

- 1- Modernized facilities
- 2- Computer rooms and access for users to register for programs, thereby increasing revenue
- 3- Updated technology and security to current standards
- 4- Better quality programs with increased revenue generation and mechanisms
- 5- Immediately improve maintenance and level of service delivery for user groups
- 6- Increased ability to reach and aid under-served populations

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 population. From acquainting children with healthy eating practices and exercise to millennials needing an active healthy lifestyle to a growing population of active adults who also need additional locations to gather, these centers will promote quality recreational, cultural opportunities and healthy living.

#### **Staff Recruitment and Training**

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

#### **Healthcare Reform**

The Patient Protection and Affordable Care Act (ACA) placed new requirements on employers. The Act mandates essential benefit coverage, insurance exchanges, prevention and wellness incentives, notices and disclosures, increase to Medicare payroll withholding, and IRS reporting. Under the current Presidential administration, attempts have been made to repeal or replace the ACA, and it is uncertain now what impact, if any, revisions to the Act would have on the City's health insurance program. Personnel Department staff continues to monitor legislative efforts regarding the ACA.

#### **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 25 years. Housing the clinic in a City-owned facility would not only save the City rental costs each year, but would also enable the City to customize clinic space to allow the provision of additional services to departments and other municipalities.

The City's Occupational Health Clinic also must maintain a medical file on every City employee who is evaluated by the clinic. Medical files must be maintained for a longer period of time than non-medical files. As a result, additional storage will need to be acquired within the next four (4) years, or an electronic filing system purchased. Because all medical records are moving to an electronic system, this solution would be extremely beneficial as it would enable the City to communicate with any medical provider outside the City of Oklahoma City.

**Retiree Health Benefits - OPEB** *(See page 95 for additional information)*



## Classification and Compensation

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 FY10 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.

## PLANNING

### Implementation of the Comprehensive Plan

The citywide Comprehensive Plan (planokc) includes multiple recommendations that will require additional funding and resources 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. Implementation of these goals will be pursued in the coming years through work in the following lines of business:



- *Current Planning.* Significant modifications to development codes, subdivision regulations and the development review process will need to be made as identified through planokc. Although some code revisions and development processes can be developed by City staff, other revisions will require consultant contracts totaling approximately \$1 million over four years. Phase 1 of this process will be complete in December with the delivery of a code diagnosis and strategy for the remainder of the process. The remaining amount (approximately \$900,000) will need to be identified.
- *Transportation Planning.* The Planning and Public Works Departments are in the process of assessing new transportation planning needs that resulted from the adoption of development impact fees for streets. Depending on the outcome of ongoing discussions and a proposed major citywide transportation study, Planning will likely need one or two additional FTEs for two purposes: 1) to model and evaluate changes in our transportation network that may be necessary for new development on a case by case basis, and 2) to develop and keep a master transportation plan up to date. Planning may also require funding for traffic/transportation plans or studies that are more focused than the citywide plan.

### Neighborhood and Commercial Revitalization

Since 2003, 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 2017. Funding through the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME) has been reduced about 33% and 45%, respectively since 2008. This funding supports numerous community development and neighborhood revitalization projects including housing rehabilitation, down payment assistance, affordable housing, infrastructure, and homeless programs, as outlined below.

- *Neighborhood and Commercial Revitalization Initiatives.* The Department's Commercial District Revitalization Program (CDRP) focuses on revitalizing corridors and commercial areas by coordinating infrastructure and community development investment. The CDRP program is currently working with districts like Paseo, Plaza, Western Avenue, the Northeast Renaissance area, Uptown/23rd, I-240, Stockyards, Capitol Hill, SW 29<sup>th</sup> and Windsor, and is experiencing increased demands from the community for services, inclusive of organizational capacity funding and technical assistance. As of FY18, CDRP works with 15 districts and entities, an amount more than double the six original districts when the program started in 2009. The budget for CDRP district funding has been \$176,000 since FY13. With the exception of FY17, the annual expenditures have exceeded the budgeted amount by approximately 30% over the last several years, and have been supplemented through contingency funds. Local funding resources of \$550,000 would allow the program to address the growing and evolving needs

of the neighborhood and commercial initiatives in an effort to support the Council Priority to promote thriving neighborhoods.

- *Housing Rehabilitation.* 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. At the current funding rate, it will be several years before the Department can respond to all applicants currently approved for services. As a result, the Department stopped accepting new applications last year for whole house rehabilitation until the backlog can be addressed. As federal funding is reduced, resources must be replaced and ultimately increased to address the growing problem.
- *Community Development Programs.* The reduction in federal funding is expected to continue, leaving the Planning Department with an additional shortage of funds to cover personnel expenses. If we are to continue delivering grant funded programs to the community, position salaries will need to be transitioned to the General Fund starting in FY19. The impact to staff positions is particularly acute. In the past we have been able to utilize special, but, term-limited programs to cover the funding gap between staffing needs and available sources. The most recent examples are the now defunct Neighborhood Stabilization Program (NSP) and the Disaster Recovery program (CDBG-DR) which started in FY15 and will run through FY18. The transition between these special programs in addition to declining federal funding has resulted in gaps that need to be addressed immediately, as well as long term.

For the past three and a half years, CDBG-DR administrative funding has been used to implement the CDBG-DR program activities which have allowed the transition of some of the salaries for grant administrative staff from HOME and CDBG to the CDBG-DR grant program. This transition of salaries has enabled the Planning Department to maintain staffing levels necessary to successfully implement grant funded housing, neighborhood revitalization, and economic development programs as federal grant funding has diminished. The CDBG-DR funded activities are limited in term and will be exhausted in FY18. The grant administration staff salaries that were migrated to the CDBG-DR grants will need to transition back to the relevant HOME and CDBG grant programs to continue to implement the programs in compliance with all financial and programmatic federal requirements.

During the 2017-18 federal program year, the CDBG-DR is shouldering the administrative salaries of staff totaling \$260,133. The remaining CDBG-DR administrative funding available to cover salaries, audit and other administrative costs for the balance of the CDBG-DR program totals \$275,325. At the current expenditure rate, this funding will be fully exhausted in FY18. Understanding this eventuality, the Planning Department has reduced the number of staff positions, particularly on the HOME program, to accommodate some of the pending funding shortfall since unused HOME administrative funding can carry over to the next federal program year. The rolling of unused administrative funding is not possible with CDBG. Therefore, the department has accumulated about \$165,800 of rollover HOME administrative funding to combine with the \$184,700 FY17 HOME administrative funding (\$350,000 total) to cover administrative expenses during FY18. The reduced staff salaries currently funded with HOME total \$226,000 (without including any grant administrative staff that were transitioned to CDBG-DR). This results in FY18 roll over of approximately \$124,000 to cover salaries when the CDBG-DR funding is exhausted during FY18.

### Social Services Programs

The City's Social Services Grant (SSG) program dates back to FY04. These general fund dollars are allocated to help the neediest in our community. The annual budget of \$121,000 for grant awards has not changed since the original allocation despite the increase in population and inflation. Annual grants are awarded to 15 service providers to aid a variety of program 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 15 service providers currently sharing SSG grant dollars are: Be the Change, Community Health Centers, Inc., The Homeless Alliance, Inc., YWCA of Oklahoma City, Inc., Heartline, Inc., Positive Tomorrows, Inc., OKC Metro Alliance, Inc., Urban League of Greater OKC, Inc., Neighborhood Services Organization, Inc., Upward Transitions, Inc., HopeHouse OKC, Sunbeam Family Services, Center for Employment Opportunities, Youth Services for Oklahoma County Inc., and Legal Aid Services of Oklahoma, Inc.

The City continues to make progress towards homeless initiatives but increased social services funding to \$350,000 annually would help our efforts and boost the City's Federal Continuum of Care (CoC) application scores, thereby helping prevent a reduction in CoC grant funding, which supports our City's homeless and our most needy citizens.

## POLICE

### Facilities

The Oklahoma City Police Department (OCPD) has several facilities that will need to be addressed over the next five years.

- *Hefner Station* - The Hefner Briefing station is one of the oldest police briefing stations in the City. The building needs renovations for ADA standards and to provide office space for Police Community Relations, Intelligence Led Policing, IMPACT, supervisory staff and increased personnel. Estimated construction cost is \$1.9 million.
- *Will Rogers Station Remodel and Equipment Storage* – The Will Rogers Station was originally designed to be a briefing station for patrol officers. The department is currently utilizing the space to house the Fleet Management Unit, Truancy Unit, and School Resources Unit. The configuration of the building is not designed for these current office functions. In addition to the need to remodel, OCPD has several pieces of specialty equipment that include the command post, tact team truck and bomb truck that need to be stored in a sheltered environment at the Will Rogers site. Remodeling costs are estimated at \$300,000 and the cost to construct the storage facility is estimated at \$500,000.
- *Briefing Station Parking Expansion*- Since the construction of the briefing stations, the number of personnel and assets housed at these locations has significantly grown. Over the years, the number of patrol officers has increased and there has been an increase in the number of specialized units utilizing these facilities. These stations now also house community relations officers, intelligence officers, and IMPACT units. With the increase in personnel, there are now more vehicles utilizing the parking lot space. The current parking lots at the five briefing stations were not designed to accommodate the number of vehicles now utilizing them. Cost estimate is to-be-determined.
- *Long-Term Evidence Storage Building*- The Property Management Unit is currently housed in a three-level building located at 701 W. Main St. It houses all evidence collected and stored for the entire city. Although the Unit is constantly releasing and destroying property in accordance with the law, certain evidence is required by law to be stored for extended periods of time. Homicide evidence, in particular, is required to be stored for a minimum of 99 years. Over the past four decades, the Unit has collected and retained a significant amount of evidence from homicide investigations. Homicide evidence alone currently occupies approximately one-third of the property facility. The storage capacity of the current facility has reached its limits and there is a need for additional storage space. Estimated construction cost is \$1.2 million.

## PUBLIC INFORMATION AND MARKETING

### Channel 20 Equipment Replacement

Channel 20 is celebrating its 30<sup>th</sup> birthday this year. The first broadcast used a single stationary camera focused on Council members during City Council meetings. We have come a long way since 1987. As cable subscriptions have ebbed and flowed over time, social media has opened a new gateway for digital communication, placing Channel 20 productions on everyone's smart phone.

Pieces of equipment have been upgraded here and there and maintenance deferred but it is past time for a major upgrade to the Council Chamber, control room and studio. The cost to upgrade equipment is estimated to cost \$1.7 million and would take seven months to complete.

- *Council Chamber* – The Chamber’s camera system was upgraded when the Council Chamber was renovated in 1997. Although technology has improved greatly over the past 20 years, the camera equipment and lighting in the chamber has largely stayed the same. A new mic system, camera system, lighting and a lobby display system are needed.
- *Control Room* – The Control Room needs switchers, production consoles, monitors, a graphics system and a playout system.
- *Channel 20 Studio* – The Channel 20 studio was built in 2006. The equipment is largely the same.

Deferring maintenance or equipment replacement could result in the loss of ability to broadcast public meetings and tape studio shows, including the Mayor’s Magazine.

## PUBLIC TRANSPORTATION AND PARKING

### Bus Stop Improvements

Recent bus system enhancements mean, more residents and visitors are using the City’s bus stops. Although many new bus shelters and accessibility improvements to bus stops have been made in recent years, bus stop improvements in the past were minimal thereby creating a backlog of bus stop locations in need of covered bus shelters and/or accessibility improvements. With 34% of residents indicating covered shelters is one of the top three most important considerations in deciding whether to use public transportation, continued interdepartmental collaboration and local funding is needed to provide the bus shelters and accessibility improvements required to develop a transportation system that works for all citizens.



### Off Street Parking Sustainable Growth

High demand for parking in downtown Oklahoma City is expected to continue for the forecast period. Overall occupancy rates in the off-street municipal parking system exceeded 100% in past years and are currently at occupancy levels in excess of 90%. High current occupancy rates, combined with additional development downtown by both the private sector and through MAPS 3 projects such as the downtown park and convention center, are expected to create further demand for parking. Results of a recent parking study completed by Kimley – Horn show additional parking needs for downtown Oklahoma City’s future, some of which will need to be fulfilled by the municipal parking system. 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.

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

## PUBLIC WORKS

### Drainage Infrastructure

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: General Obligation (GO) Bonds and the Storm Water Drainage Utility. The GO Bond program provided provided \$33 Million for 10 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 historically devoted a significant portion of funding to the Oklahoma River, channel cleaning and mowing of detention ponds. A review of the Storm Water Drainage Utility fee is necessary to identify additional funding for improvements to the city's overall drainage system.



*Pictured above is a dam on the Oklahoma River which is maintained from funds collected through the Storm Water Drainage Utility Fee.*

## UTILITIES

### **Solid Waste Utility – Rerouting and Recycling Program Implementation**

On December 19, 2017, Council received a briefing from the Utilities Department concerning the status of collections efficiency scheduled for February 2018 and timing for initiation of the new large cart every-other-week recycling program beginning July 2018. With the implementation of the new recycling program in July 2018, the small container weekly recycling collection program must end April 30, 2018. Waste Management, OCEAT's contracted recycling collection provider, will have its recycling truck drivers practice on the new recycling collection routes throughout the City during June so that they are prepared to service customers in July. It is anticipated that an additional 7,000 residential customers currently designated rural customers will be converted to urban trash service in July 2018 and receive the new recycling service. The OCEAT will also establish two self-service pilot rural recycling depots to extend recycling capabilities to remaining customers still residing in rural collection areas.

**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**  
FY 2019-2023



SECTION 6

**GENERAL FUND REVENUES**

TRENDS AND FORECAST

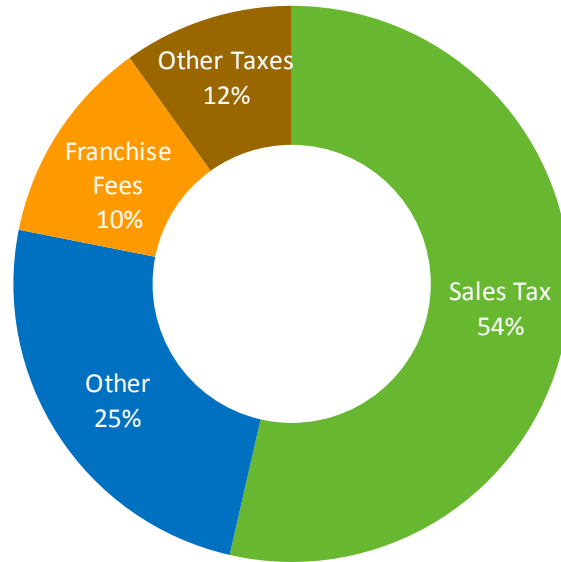
**REVENUE OVERVIEW**

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. With the City’s current revenue mix, continued stability of the General Fund is contingent upon growth in tax revenues, and sales tax, in particular. Because over half of the General Fund budget comes from sales tax, it is the key revenue source. For that reason, a significant part of this section will focus on sales tax revenue.

**FY18 GENERAL FUND REVENUE SOURCES**

**FY18 GENERAL FUND REVENUE BUDGET**

Sales Tax	\$222,162,633
Other	\$101,754,848
Other Taxes	\$49,683,716
Franchise Fees	\$41,046,177
<b>Total Amended Budget</b>	<b>\$414,647,374</b>



Continued stability of the General Fund is contingent upon growth in tax revenues, Sales Tax, in particular.

**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. The City maintains agreements with the Oklahoma Tax Commission 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 15<sup>th</sup> 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.



The City's sales tax rate is **4.125%**.

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 as follows:

Tax Rate	Fund	Purpose
2.250%	General Fund	Sales Tax is the largest single revenue source for the General Fund which funds day-to-day operations.
1.000%	MAPS 3 Sales Tax Fund through 12/31/2017 Better Streets, Safer City Sales Tax Fund beginning 1/1/2018	The tax is a temporary sales tax to fund capital improvements. When MAPS 3 ended on December 31, 2017, the Better Streets, Safer City Tax began and will continue for 27 months.  MAPS 3 improvements are designed to boost economic development and improve the quality of life in Oklahoma City and the Better Streets, Safer City Sales Tax will fund street resurfacing, street enhancements, sidewalks, trails and bicycle infrastructure.
0.750%	Public Safety Sales Tax Fund	The tax is split evenly between Police and Fire and is a permanent dedicated sales tax.
.1250%	Zoo Sales Tax Fund	The tax is a permanent dedicated sales tax that can only be used for capital improvements and operations at the Zoo.

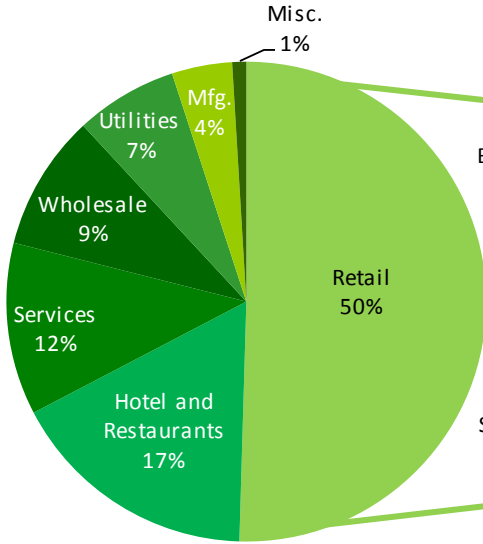
**4.125% Total City Sales Tax**

**Sales Tax Revenue by North American Industry Classification System (NAICS)**

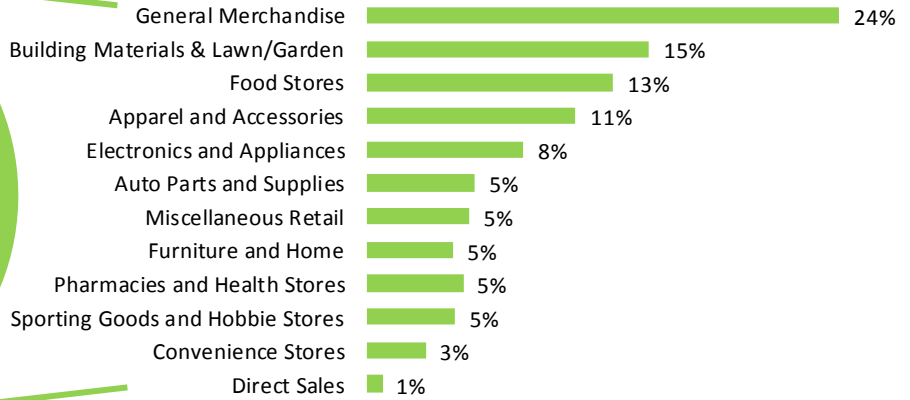
The Oklahoma Tax Commission (OTC) categorizes all of the vendors who remit sales tax using the North American Industry Classification System (NAICS). NAICS classifies business establishments by type of activity to monitor and analyze related statistics. It is the system used by the Federal Government 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 on the following page illustrate the most significant sectors of Oklahoma City's sales tax base for FY17. As shown in the pie chart, the retail sector represents half of all taxable sales. The NAICS system allows further division within the major groups for a finer 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.

**FY17 Sales Tax by NAICS Categories**



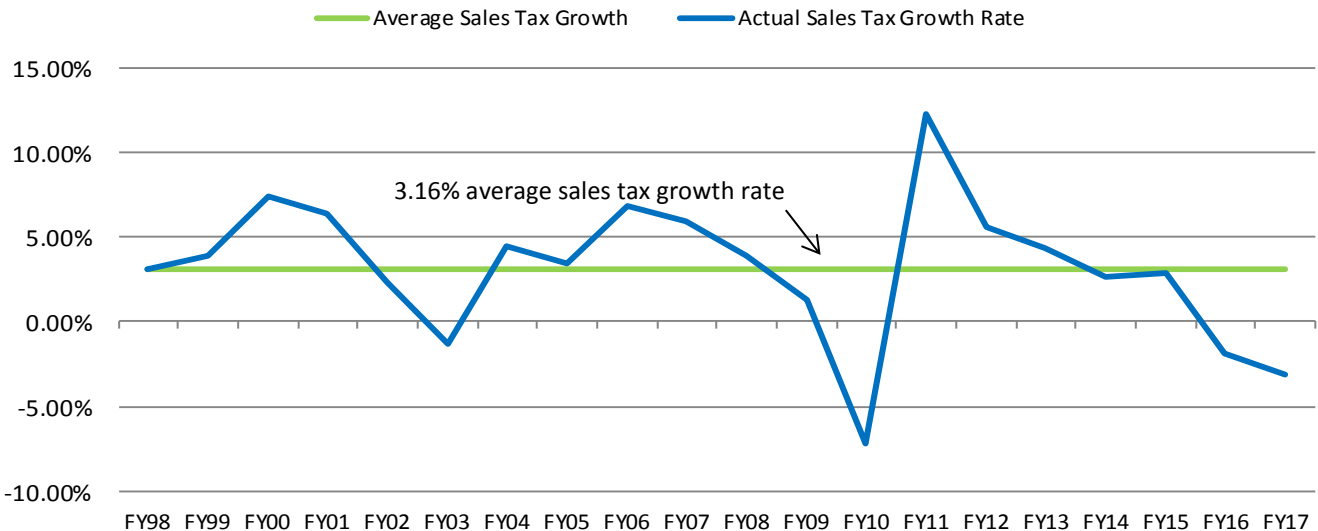
**FY17 Breakdown of Retail Categories**



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 each month highlighting their analysis of tax collections and trends that are emerging.

**20-Year History of Sales Tax Growth**

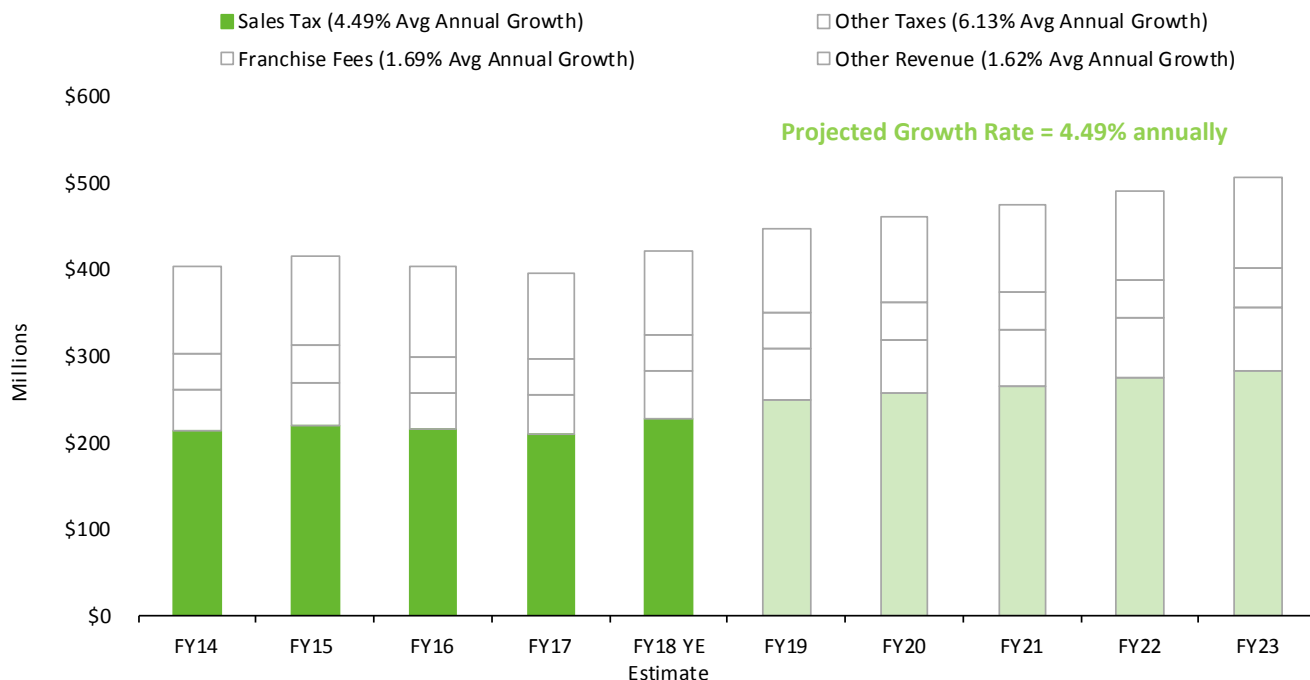


### Sales Tax Revenue Forecast

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 next year’s sales tax a real challenge as it can change dramatically from year to year as shown in the chart at the bottom of page 116. For Oklahomans, extremely 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 bigger impact on our local economy than the underlying strength that has been building from other industries such as Aerospace. In the last five years, Oklahoma City has seen the 20-year average growth rate decline from an average of 3.96% growth per year to 3.16% growth per year. The trend continues to be analyzed since Oklahoma City maintained one of the lowest unemployment rates in the nation at 4% to 5% 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. That estimate was used to inform the projection for sales tax growth for the remainder of FY18 and for FY19. Based on those forecasts and our long-term average, sales tax growth for FY18 is expected to grow 4.62% from FY17, before the permanent ¼ cent sales tax increase that went into effect January 1<sup>st</sup>, is added. With the tax increase, sales tax is expected to grow 9.10% in FY18. To prepare our FY19 base budget, we used a sales tax growth rate of 2%. As estimates are refined this spring based on the recent activity and economic indicators the FY19 sales tax growth rate will most likely increase. In the last four years of the forecast, we projected sales tax would grow at 3.16%, the 20-year average growth. Due to the increase in the sales tax rate, sales tax is expected to increase from 53% of General Fund revenue to 55%, and grow at a projected rate of 4.49% annually over the forecast period of FY19 – FY23. This projection results in an additional \$55.3 million from sales tax in FY23 compared to where we expect to finish FY18.

**General Fund Sales Tax Projected Growth**





**OTHER TAXES**

The City receives tax revenue from a variety of other sources. Aside from sales tax, the largest single tax source for Oklahoma City is use tax, which is levied on goods and equipment imported from other states for use within Oklahoma and not for resale. 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.

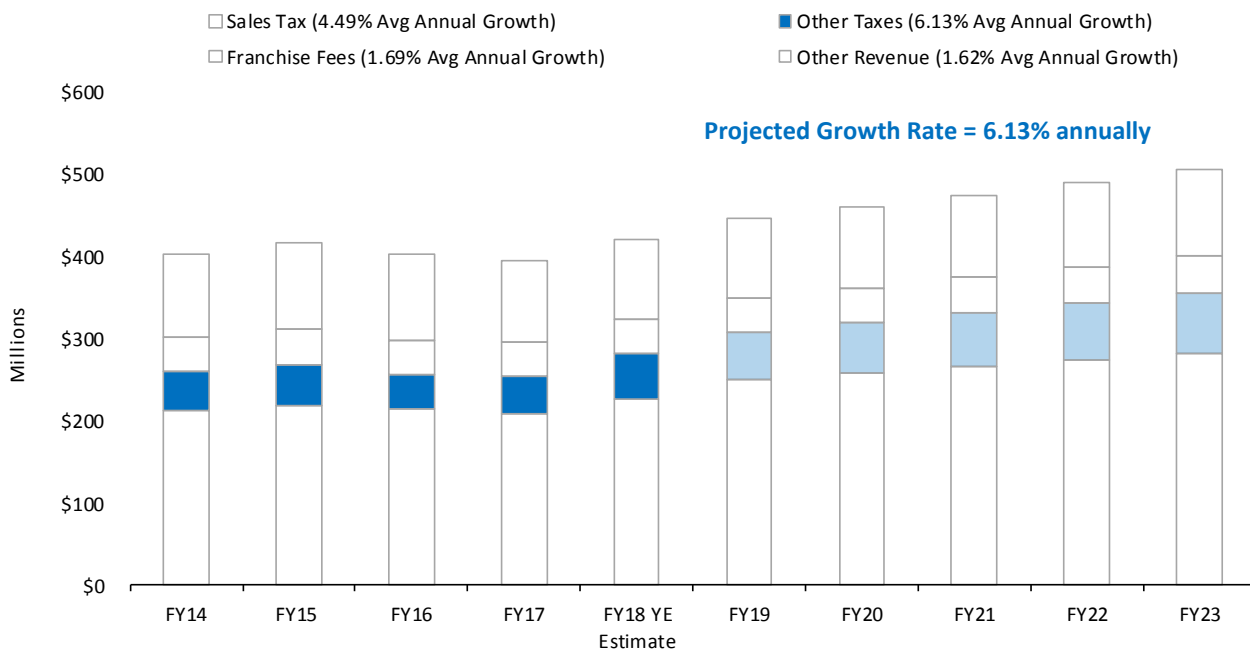


**Other Taxes Forecast**

Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. Use Tax has grown at an average of over 7% per year over the last ten years. In FY16, use tax declined 20.8% due to a \$6.6 million refund to a taxpayer who remitted taxes to Oklahoma City in error for several years; with the refund excluded use tax still declined 3.3%. In FY18, use tax is expected to grow at 23.0% due to Amazon and other retailers remitting use tax for online purchases and a new ¼ cent permanent increase in the use tax rate that became effective January 1, 2018. For FY20 through FY23 we projected a growth rate of 7% based on the long-term average growth rate.

The commercial vehicle tax and motor fuel tax are both allotted to the City from the state by formula. That formula was changed several years ago reducing the City’s share of those taxes. The legislation that modified the City’s share guaranteed that the city would not lose any revenue from the change. As a result of the change, the city’s revenue from commercial vehicle tax and motor fuel tax has only seen slight increases since FY04. The other two taxes the City receives are alcohol tax and the excise tax on tobacco. Through FY12, the tobacco excise had shown growth primarily due to increased enforcement by the Oklahoma Tax Commission and better compliance with the law from vendors, however FY13 and FY14 saw average declines of 7%. The decline in excise tax on tobacco was attributed to fewer cigarette smokers as reported by the Centers for Disease Control and Prevention in their report “Tobacco Control State Highlights 2012.” The excise tax on tobacco is expected to remain flat during the forecast period. The alcohol tax is forecasted to grow at 1.4% in FY18 and then return to the 10-year average of 4.0% the remainder of the forecast period. Overall, other taxes, which make up 12% of General Fund revenue, are projected to grow an average of 6.13% over the forecast period.

**General Fund Other Taxes Projected Growth**



### 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. Four companies (Oklahoma Gas & Electric, Oklahoma Natural Gas, AT&T and Cox Cable) remit fees to the city that typically comprise about 80% of all franchise revenues from private corporations. In addition, 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 considered franchise revenues for this analysis.

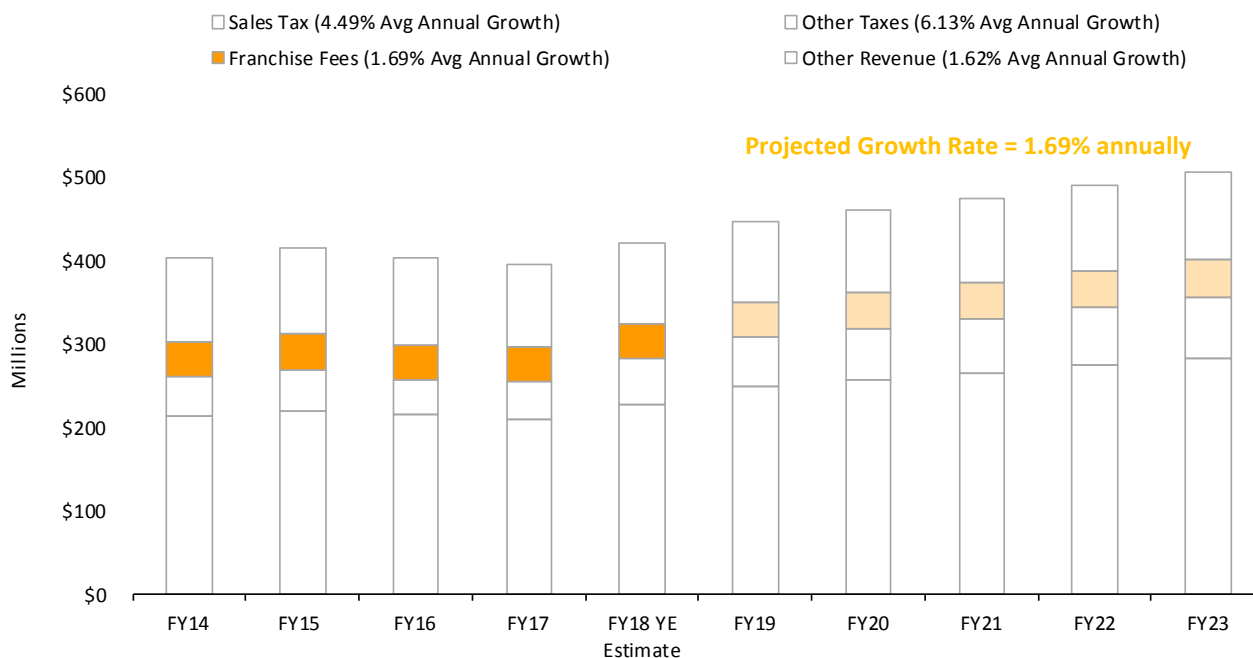


Revenue from the energy-based companies is significantly impacted by weather and the price of fuel. The current price for natural gas not only influences franchise revenue from Oklahoma Natural Gas (ONG), but also from Oklahoma Gas and Electric (OG&E) as the cost of power generation is impacted. Rate increases have recently been approved for ONG and OG&E. Because of the short time the increases have been in effect, the impact of those rate increases is not included in this forecast. Competition in the video/cable business has played a role in fluctuations seen in revenues from AT&T and Cox Communications. 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, increasing as population and rates increase. Franchise revenue from Water is very dependent on the weather during the summer and can experience more fluctuation. The new water conservation program may limit growth in future water franchise revenue as consumers are encouraged to reduce water consumption.

### Franchise Revenue Forecast

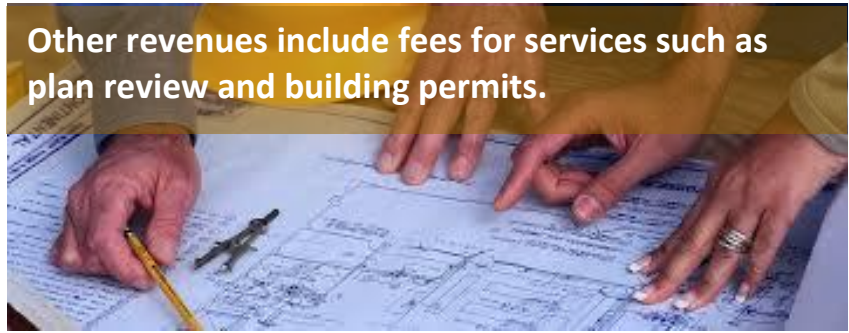
Franchise revenue is expected to finish FY18 2.06% above FY17 due to the price of natural gas and weather. In FY19, growth is expected to remain flat. For the remaining four years of the forecast, Franchise revenue as a category, is projected to average growth of 1.69% per year based on long-term averages.

General Fund Franchise Revenues Projected Growth



**OTHER GENERAL FUND REVENUES**

Many other sources contribute to the General Fund revenue base. Long term average growth rates were used for the projection. Revenue sources in this category include:



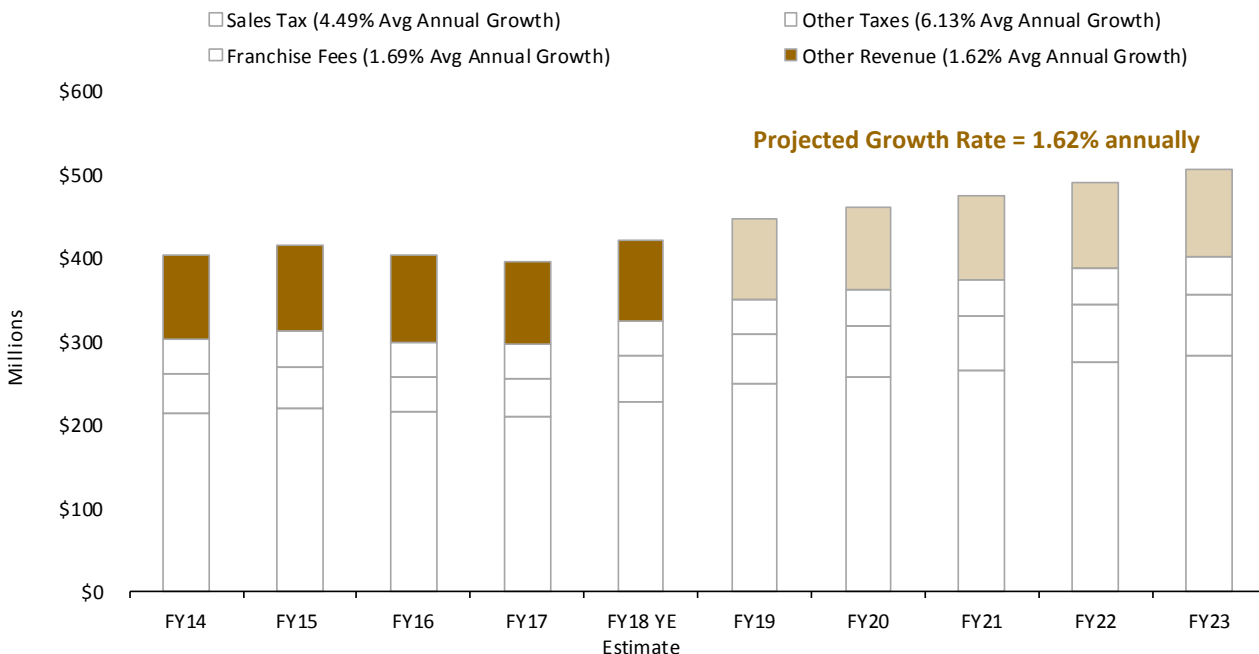
Other revenues include fees for services such as plan review and building permits.

- Licenses, Permits & Fees** - Building permits and various business and occupational licenses are among the sources contained in this revenue category. These charges are designed to recover costs of the enforcement and administration of city codes and account for 3% of the General Fund revenue budget.
- Services & Administrative Charges** - Animal shelter, engineering, planning, recreation, and police fees are some of the sources included in this category. Also included are payments from the Public Safety Sales Tax Fund as reimbursements for police and fire wage adjustments; parking meter fees; and inter-agency charges for services such as accounting and legal. These charges account for 13% of the General Fund revenue budget.
- Fines** - This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed by the Court of Record and Criminal Court, and revenue from court costs. This revenue category makes up 5% of the General Fund revenue budget but can vary from year to year based on the number and types of citations filed with the Court. Citations filed have been down for the past few years and the category is projected to remain flat over the forecast period.
- 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 only 2% of the General Fund revenue budget.

**Other General Fund Revenues Forecast**

Overall, this group of other revenues makes up 25% of General Fund revenue. Growth of 1.62% was projected over the forecast period and was based on long-term average growth rates.

**General Fund Other Revenues Projected Growth**

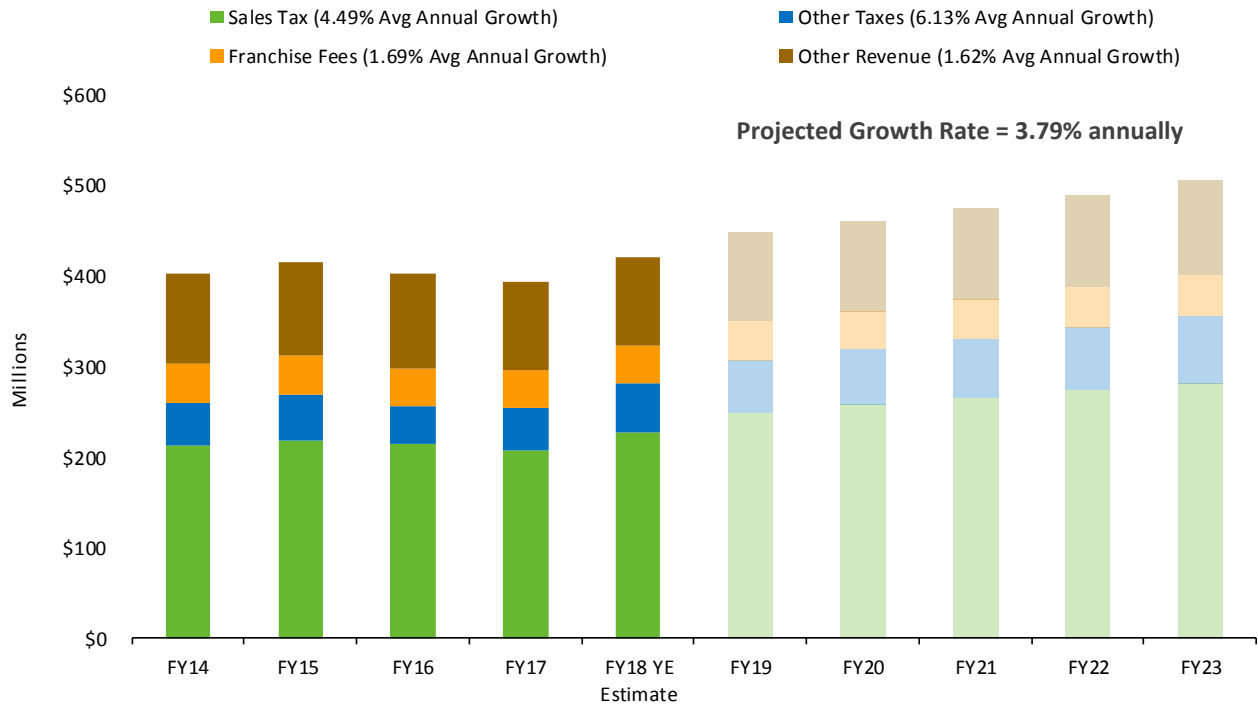




### OVERALL REVENUE FORECAST

When all of the categories are combined General Fund revenues are expected to grow at about 3.79% per year over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated recurring revenue of \$420.3 million in FY18 to \$506.1 million in FY23.

**General Fund Sales Tax Projected Growth**



**FIVE-YEAR  
FORECAST**  
FY 2019-2023

SECTION 7

**GENERAL FUND EXPENSES**

TRENDS AND FORECAST

**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. It is anticipated that general operating costs will continue to grow at a rate higher than inflation due, primarily, to salary and benefit growth. However, a couple of future expenditures were included in the expenditures projections and were summarized in the table below. These additions are identified in the sections on the following pages by italics. Conservative financial assumptions are made to maintain the financial stability of the City when considering the implementation of these, or any, new or enhanced City programs.

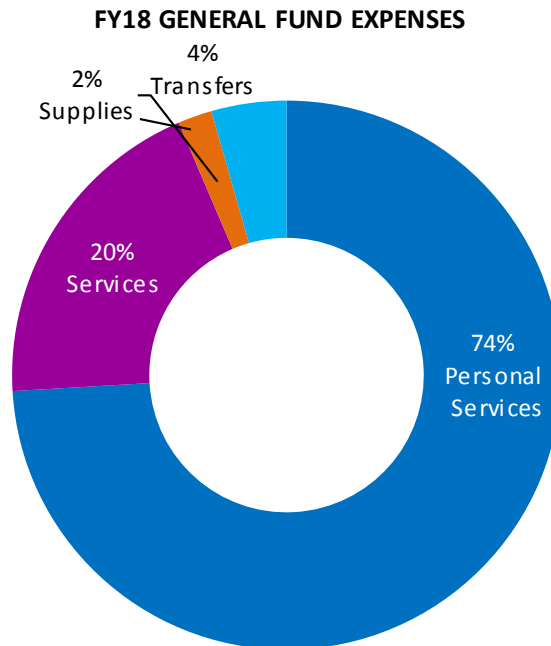
	FY19	FY20	FY21	FY22	FY23
American Indian Cultural Center	\$0	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Bus Replacement	\$0	\$0	\$0	\$4,000,000	\$0
<b>Total</b>	<b>\$0</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$5,000,000</b>	<b>\$1,000,000</b>

**FY18 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.

**FY18 GENERAL FUND EXPENSE BUDGET**

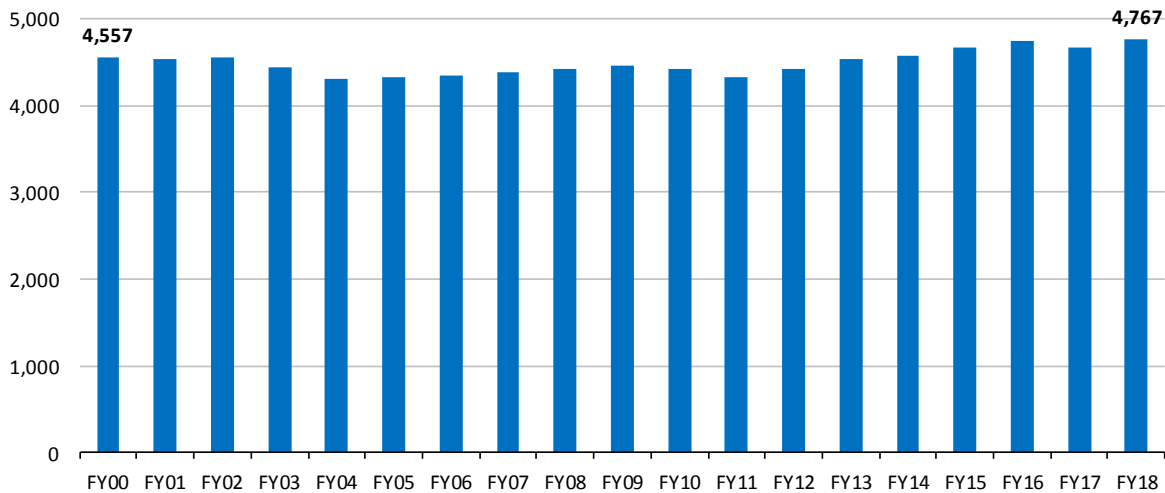
Personal Services	\$307,133,377
Services	\$80,857,487
Supplies	\$8,355,385
Capital	\$10,000
Transfers	\$18,291,125
<b>Total Amended Budget</b>	<b>\$414,647,374</b>



**PERSONAL SERVICES**

At 74% of the FY18 Amended General Fund budget, personal services are the primary driver in expenditure growth in the General Fund. Personal services include salaries, insurance, retirement contributions, and training. Obviously, the two main drivers in the growth of personal services are the number of employees and the pay and benefits of those employees. The adopted FY18 budget reduced the number of positions by 20 due to declining revenue. However, a mid-year budget amendment, made possible by a permanent ¼ cent sales tax increase that went into effect January 1, 2018, added 81 uniformed police officers and 39 uniformed firefighters. In addition, five positions were added in Public Works to support the new Better Streets, Safer City temporary sales tax. The total number of budgeted positions in the FY18 amended budget was 4,767, a 2.69% increase from FY17, and the largest employee count in City history.

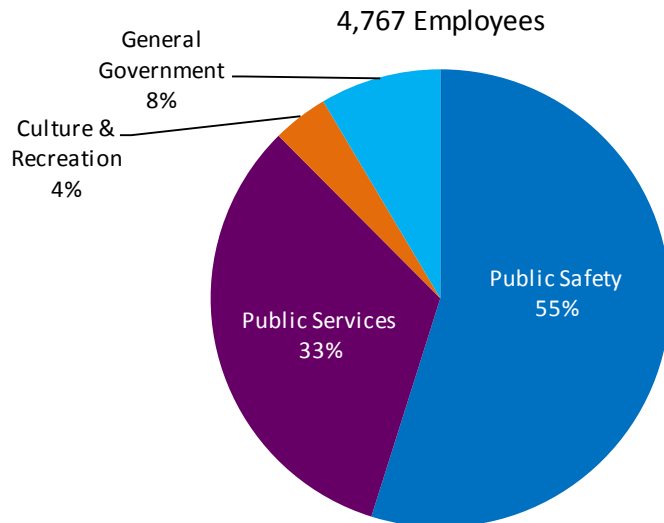
**Total Number of City Employees**  
(All City Funds)



In terms of distribution of those employees among the various categories of services provided, the largest group is focused on public safety. This includes fire, police and courts employees, which make up 55% of the City’s workforce. Second largest, at one third of all employees or 33%, 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 8% 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.

These totals 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 151 full-time employees and the Oklahoma City Public Property Authority has about 59 full-time employees working at the city’s golf courses. These employees would count in the culture and recreation category.

**FY18 Employee Count by Category**



There are also 217 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 the service provider 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.

Personal services growth is driven by the number of employees and the pay and benefits of those employees.

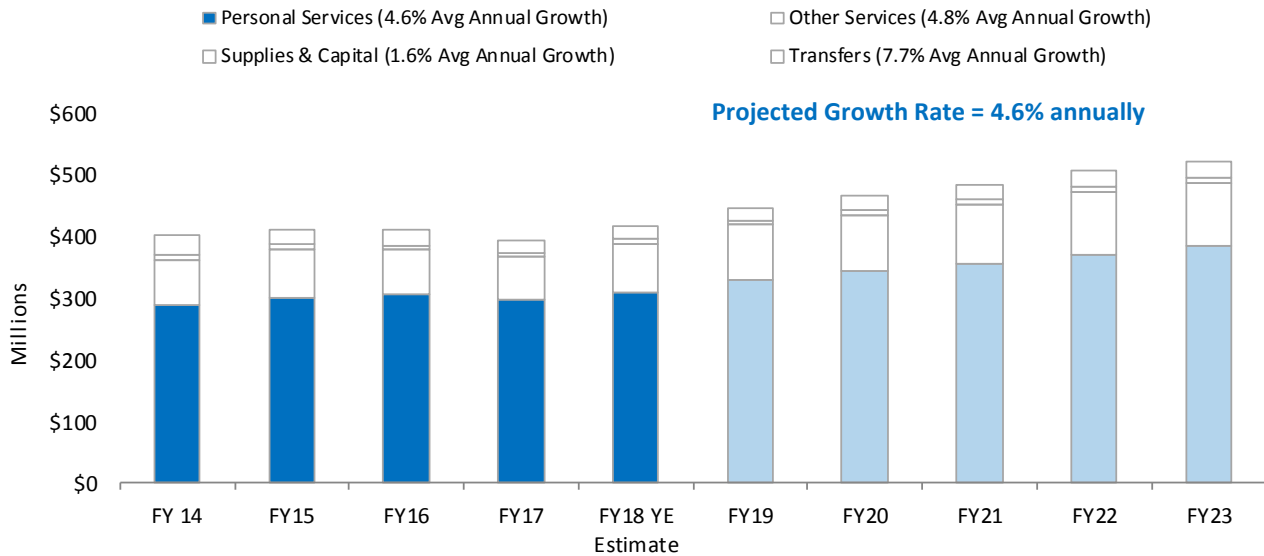


Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY18 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,433 general positions. The Fraternal Order of Police (FOP) represents the 1,235 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 1,017 uniformed fire positions. The remaining 1,082 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 Projections**

Looking back at how employee costs have grown in recent years helps to inform the projections for the future. In FY19 the rate of growth is projected at 7% due to the passing of a permanent ¼ cent sales tax increase that allowed for 21 frozen fire fighter positions and 48 frozen police officer positions to be funded, adding 15 fire fighters to restore Fire Engine 51 to service which had been idled due to budget cuts, adding 21 fire fighters to staff a new fire station in Southwest Oklahoma City, 3 additional firefighters to supplement staffing, and 81 additional police officers. In the subsequent years, the projected rate of growth drops to an average of 3.86% to keep up with position related expenses such as insurance increases. Over the five-year forecast period, the average growth is projected at 4.6% for personal services which is a culmination of additional positions and related expenses such as wages and insurance.

**General Fund Personal Services Expenditure Growth**



**OTHER SERVICES**

Other services include expenditures for service contracts, utilities, printing, vehicle maintenance and professional services. The FY18 amended budget for other services totals \$80.8 million or 20% of all General Fund expenditures. Two of the largest expenses in the Other Services category include payments to the Central Oklahoma Transportation and Parking Authority (COTPA) for operations which is projected to account for 20% of the FY18 Other Services budget and chargebacks which are projected to account for 32% of the Other Services budget. Chargebacks are charges between internal city agencies for services such as vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance.

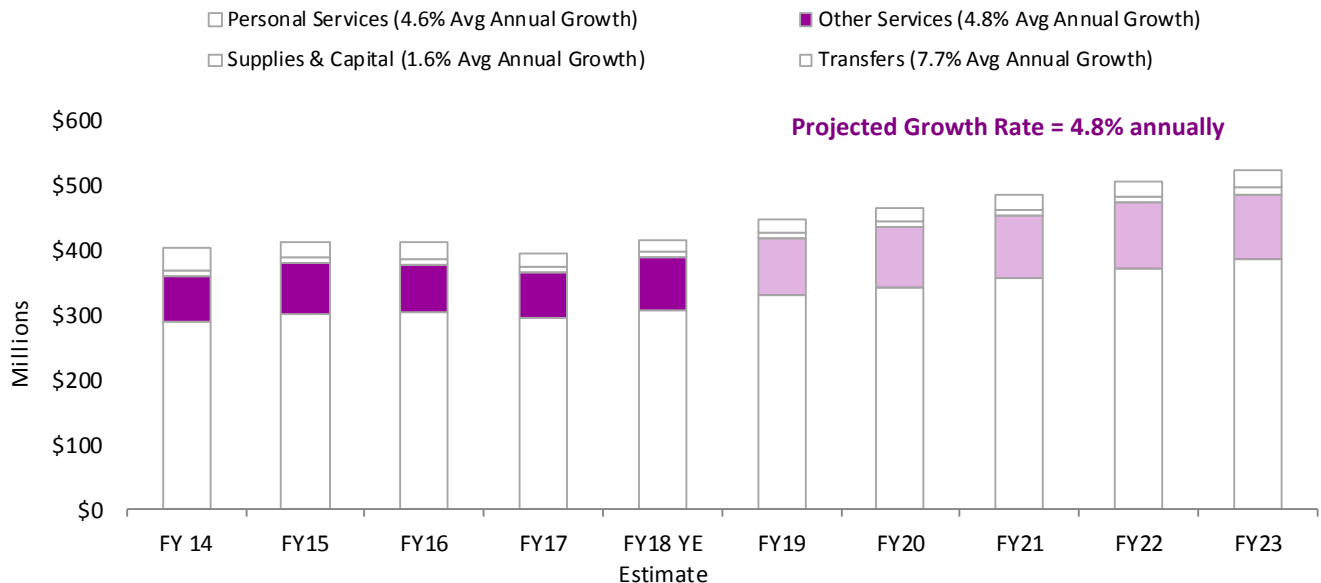


**Other Services Expenditure Projections**

Most of the costs for other services during the forecast period are expected to grow at an average of 3.0% per year, the average annual growth rate over the last five years.

Also included in other services is the addition of \$1 million a year beginning in FY20 to repay an internal loan used to fund the City's \$9 million commitment towards finishing construction of the American Indian Cultural Center and \$4 million in FY22 for bus replacements. Overall, the other services category is expected to grow an average of 4.8% per year once these additional expenses are included in the budget projections.

**General Fund Other Services Expenditure Growth**



**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. Expenditures falling in the supplies category include purchases of materials needed to affect repairs and routine maintenance on city equipment and facilities. Examples include 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.

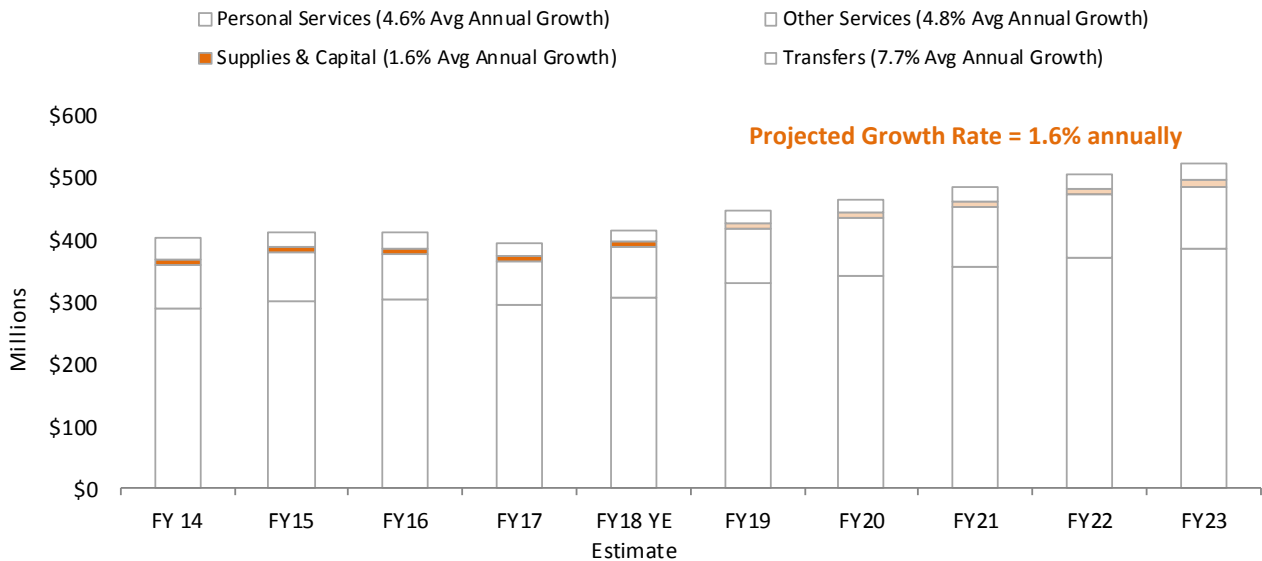


Capital costs (replacement of office equipment, etc.) have, generally, been minimal in the General Fund. Most capital projects not funded by dedicated sources, such as bonds or dedicated sales taxes, are handled in the Capital Improvement Fund. Most funding for the Capital Improvement Program is included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

**Supplies and Capital Expenditure Projections**

Based on the average growth rate for the last five years and anticipated growth due to inflation, supply and capital costs are expected to grow at an average of 1.6% per year over the five-year forecast period.

**General Fund Supplies and Capital Expenditure Growth**





**TRANSFERS**

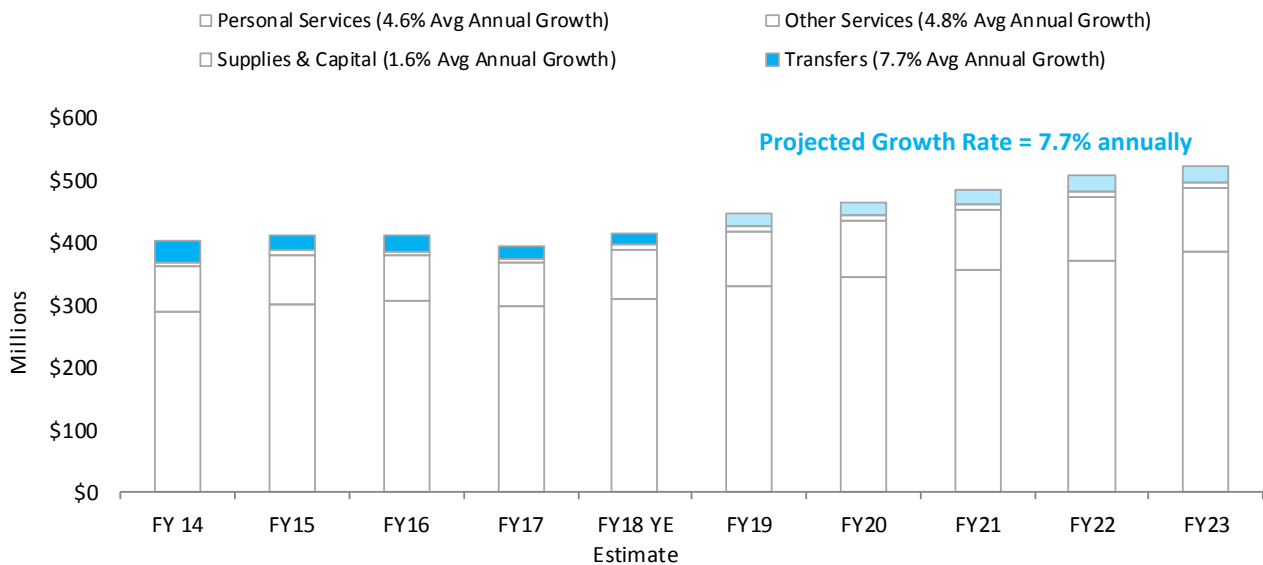
General Fund transfer costs reflect the General Fund’s direct financial support of several services whose own dedicated funding sources are insufficient to meet City objectives. In total, the adopted FY18 General Fund budget includes \$18.3 million in transfers. The three largest transfers in this category include \$5.56 million for transfer to OCPPA for operation of the Chesapeake Energy Arena and Cox Center; \$2.8 million for transfer to the Emergency Management Fund for 911 operations; and \$6.2 million for transfer to the Capital Improvement Fund.



**Transfers Expenditure Projections**

Based on the average growth rate for the last five years transfers are expected to increase an average of 7.7% annually over the five-year forecast period.

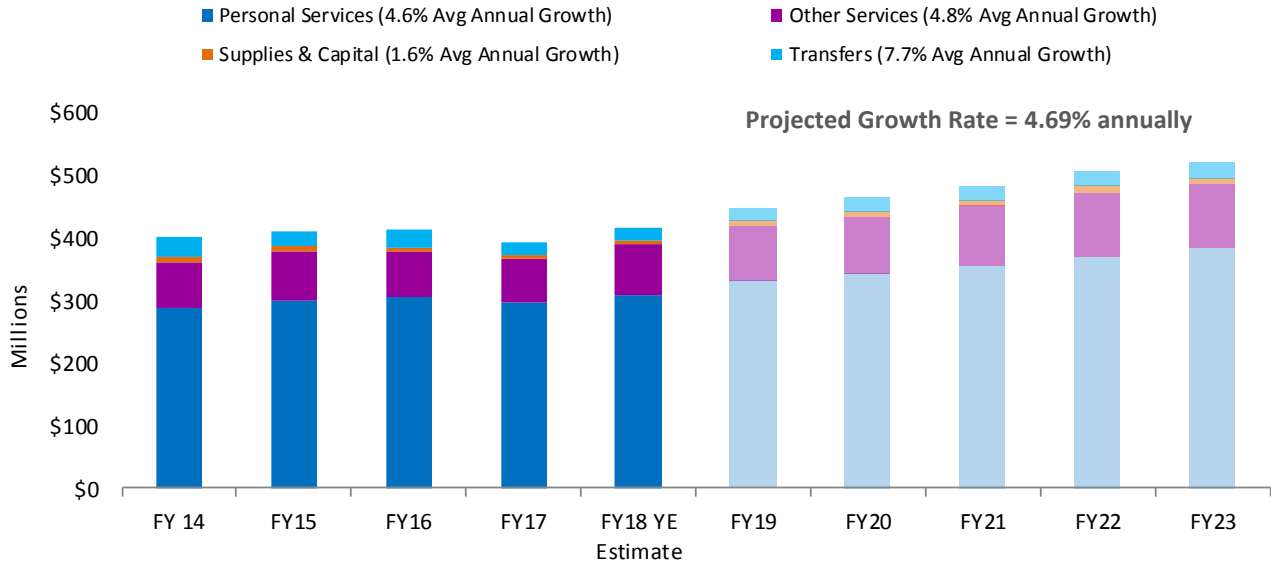
**General Fund Transfers Expenditure Growth**



**OVERALL EXPENDITURE FORECAST**

When all the categories are combined, the net effect is annual growth of about 4.69% in General Fund expenditures over the next five years. Growth in FY19 is expected to be 10% more than the FY18 year-end estimate due to increased staffing in public safety and public works. As additional operating costs come online for Scissortail Park, the Oklahoma City Streetcar, loan payments for the American Indian Cultural Center and Museum and bus replacement, the expense budget increases from an amended budget of \$414 million in FY18 to a projected budget of \$521 million in FY23. The chart below provides a visual representation of that growth.

**General Fund Expenditure Growth**



SECTION 8

**GENERAL FUND**

REVENUE/EXPENDITURE GAP

**PROJECTED REVENUE/EXPENDITURE GAP**

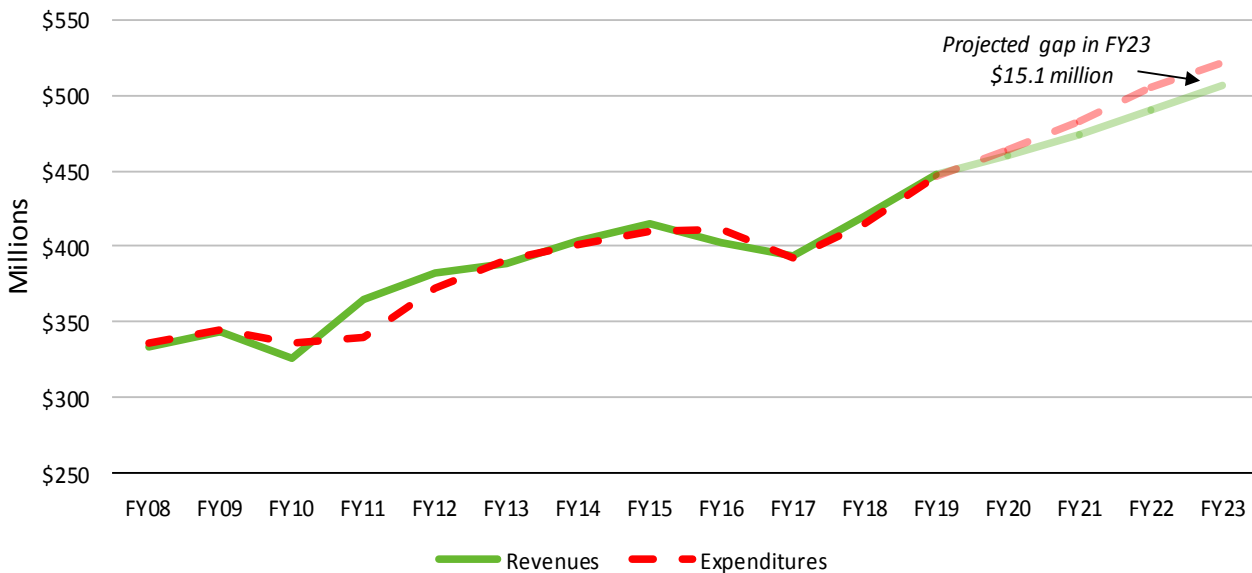
Historically, the city’s financial forecasts have projected a revenue/expenditure gap. A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to the city’s continued financial stability. After the national recession 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. In FY18, growth of 6.65% is anticipated in the General Fund due to a permanent ¼ cent sales tax increase that went into effect mid-fiscal year. In FY19 General Fund revenue is projected to grow 6.34% due in large part to the same ¼ cent permanent increase in sales tax that will have then been in effect for the entire fiscal year. Without the permanent ¼ cent sales tax increase revenue growth in FY18 would have only returned the General Fund to a budget of approximately \$410 million which is comparable to FY15 levels.

**A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to Oklahoma City’s continued financial stability.**

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 FY23, revenues are expected to average 3.79% growth annually. Expenditures, on the other hand, are expected to grow at an average rate of 4.69% 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 \$15.1 million in FY23. The General Fund Revenues and Expenditures chart below shows ten years of actual figures (FY08 – FY17) and projections for FY18 – FY23. 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.

**General Fund Revenues and Expenditures**



### CLOSING THE GAP

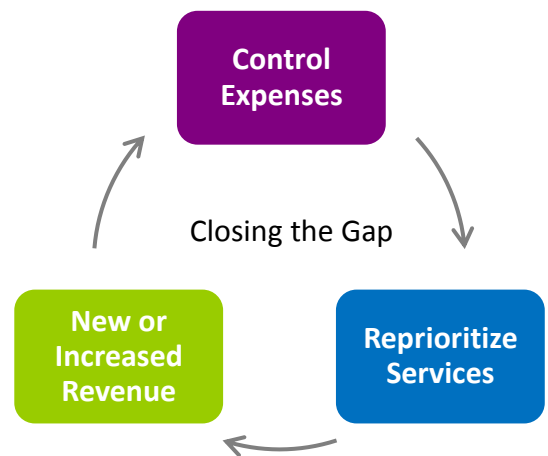
State law mandates a balanced budget so every year the city must close the gap. In FY17, revenue was down which forced the City to implement a mid-year reduction in the workforce to control expenses. The measure was successful and in the last quarter some revenue sources began to improve and the City was able to add almost \$2 million to fund balance. In FY18, we are anticipating adding to fund balance once again due to a permanent ¼ cent sales tax increase that went into effect January 1, 2018. While the budget was amended mid-year to budget the additional revenue which will fund 125 new positions, it will take time to recruit and hire the 81 uniformed police officers, 39 fire fighters, and five public works positions which will result in salary savings due to the vacancies. After many years of asking departments for budget reductions, in FY19 departments were asked to submit requests for program improvements and/or restoration of cuts made in previous years. While all requests will not be able to be funded, staff will analyze requests and recommend changes that align to Council priorities and department’s strategic business plans. In future years, it appears departments may need to make reductions annually to keep the budget balanced or the City will need to find new revenue sources or expand existing revenue sources to balance the budget. Future funding gaps can be avoided through continued expenditure control, reprioritization of city services, addition of new revenue sources and the judicious use of fund balance.

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, 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.



### SUMMARY

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**  
FY 2019-2023

**FIVE-YEAR  
FORECAST**  
FY 2019-2023

# **FIVE-YEAR FORECAST**

**FY 2019-2023**

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