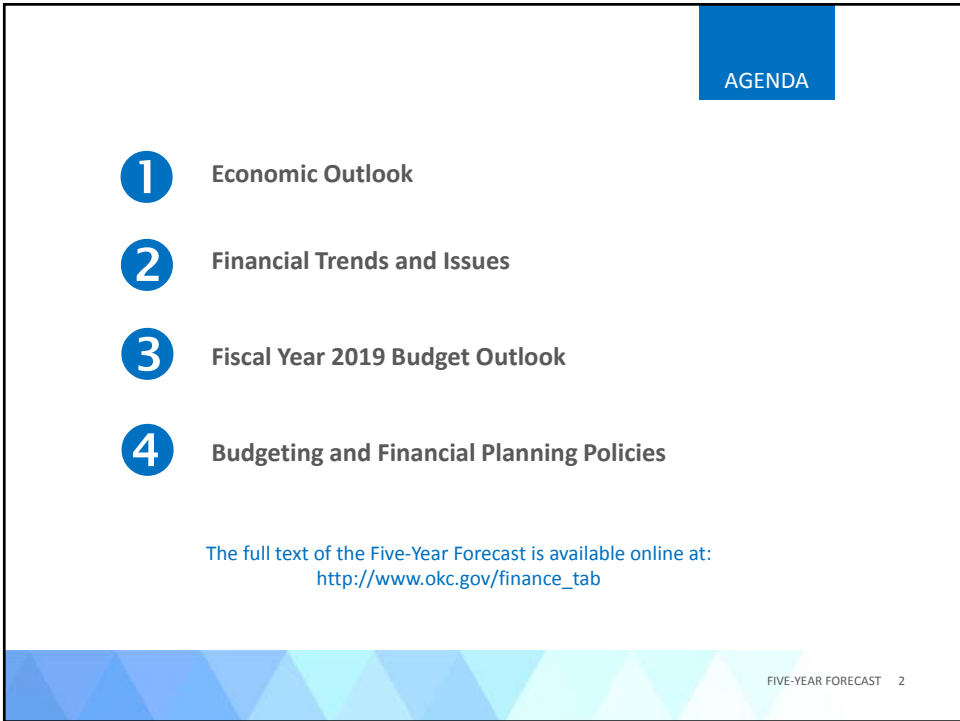




CITY COUNCIL WORKSHOP
FEBRUARY 6, 2018

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



AGENDA

- 1 Economic Outlook**
- 2 Financial Trends and Issues**
- 3 Fiscal Year 2019 Budget Outlook**
- 4 Budgeting and Financial Planning Policies**

The full text of the Five-Year Forecast is available online at:
http://www.okc.gov/finance_tab



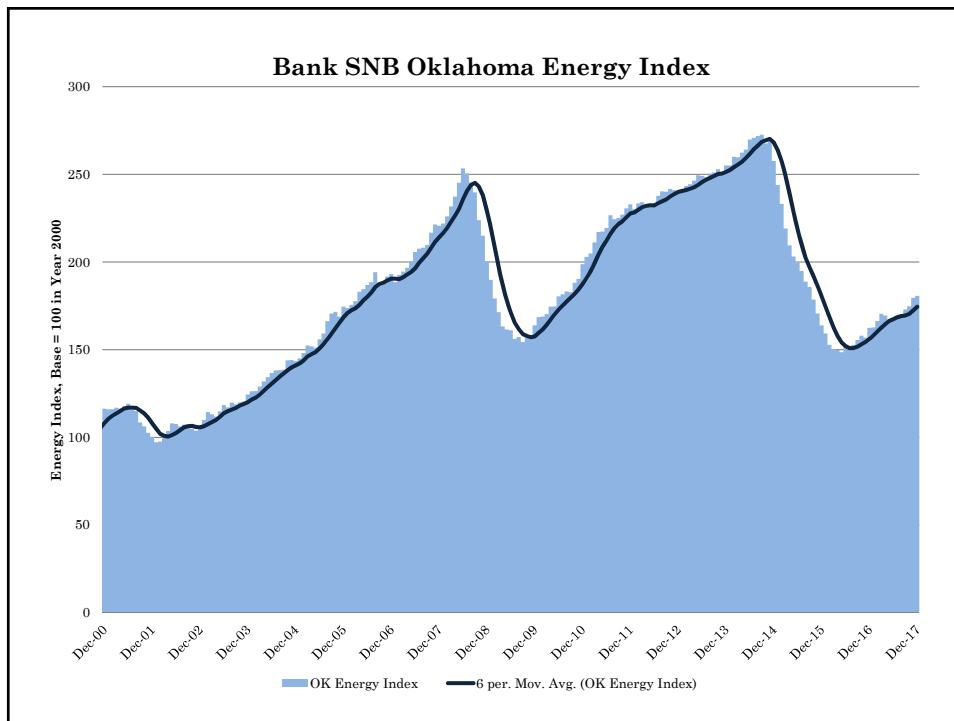
Russell R. Evans, Ph.D.
Executive Director, Steven C. Agee Economic Research and Policy Institute
Meinders School of Business

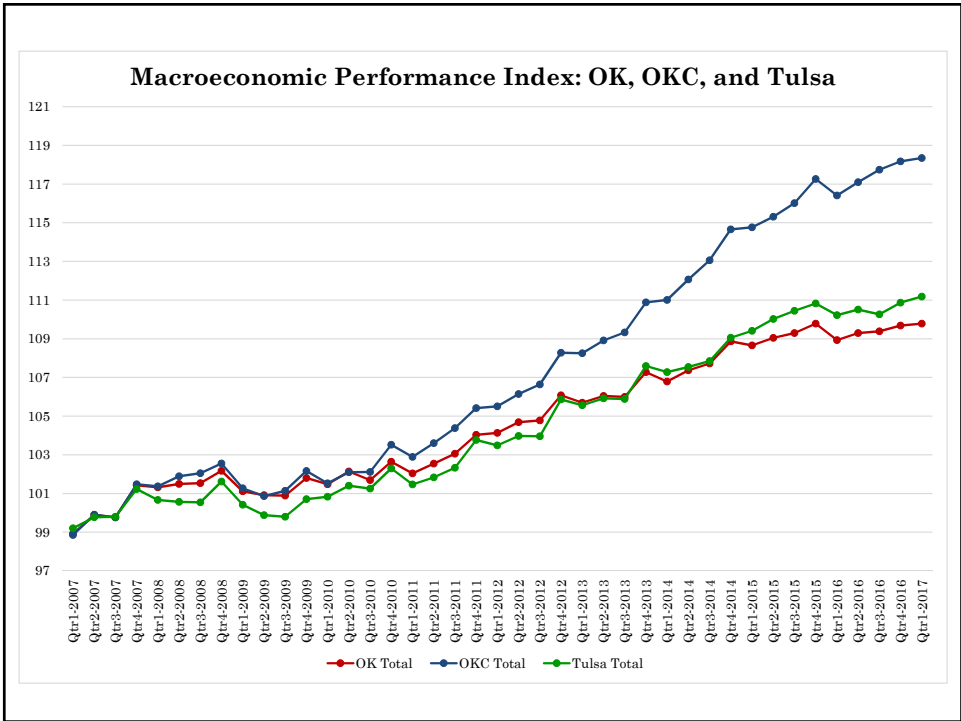
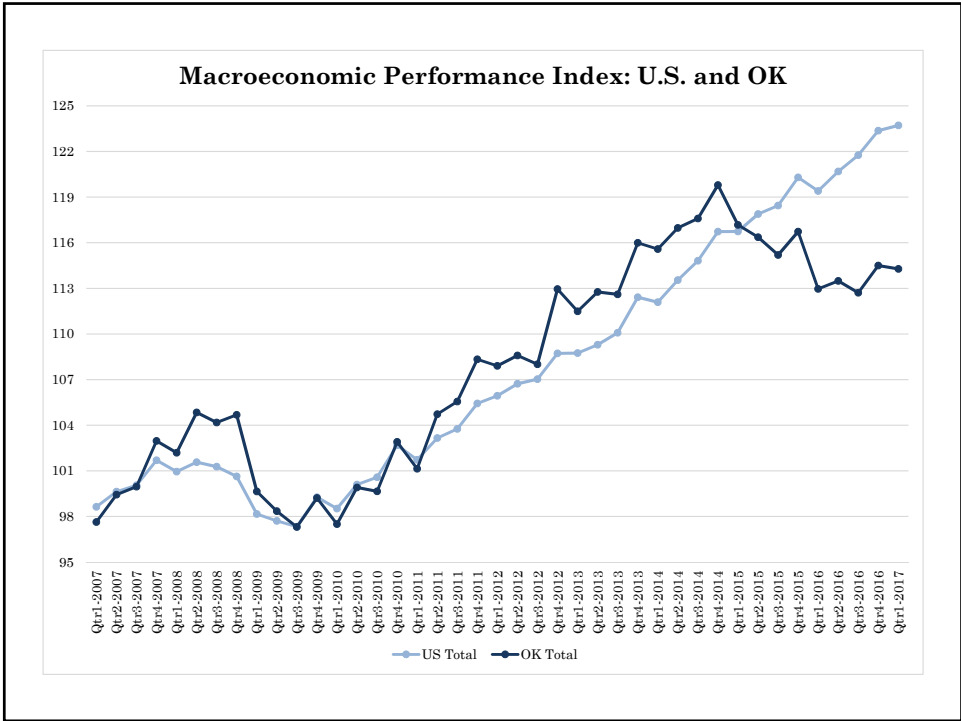


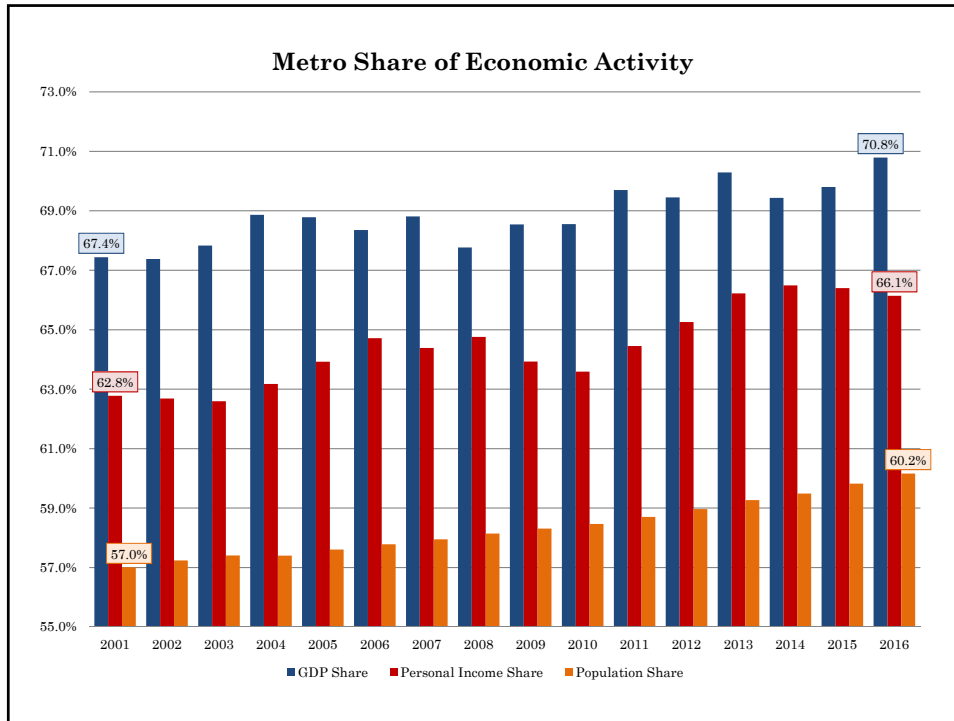
Meinders School of Business ranks in the top 4.5% of Business Schools in the World.

Interesting Economic Conversations

- Unwinding the Fed's balance sheet and disruptions to the real economy
- Tax reform and NIPA methodology of economic activity
- Cryptocurrencies as a threat to monetary systems
- Step Up Oklahoma and budget reforms
- DJIA up 25% last year – with historically low volatility
- Energy states in a peak demand world



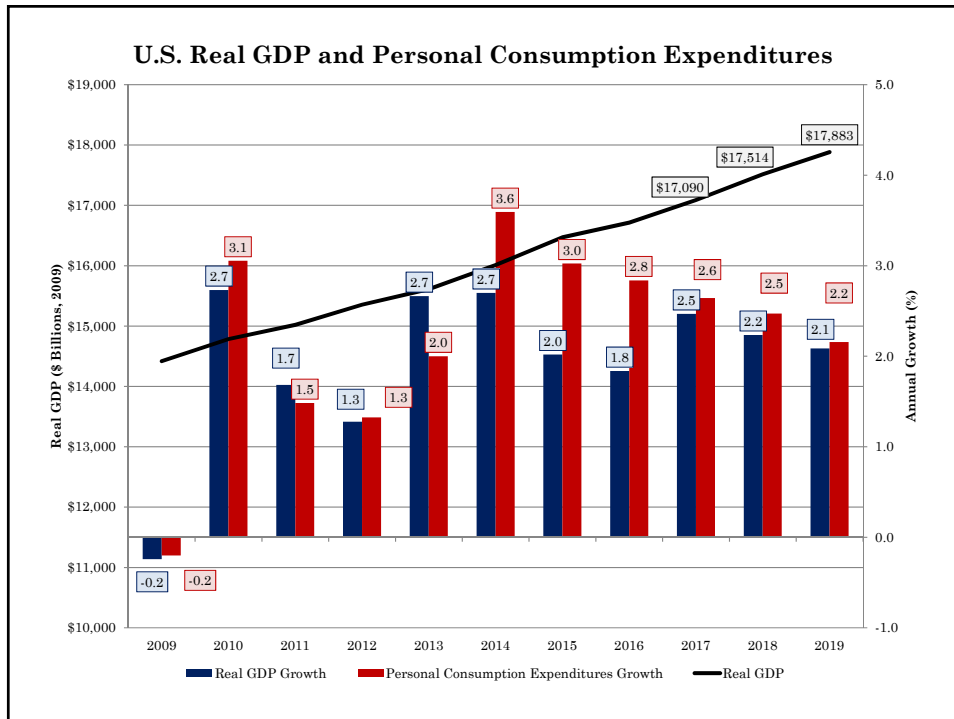


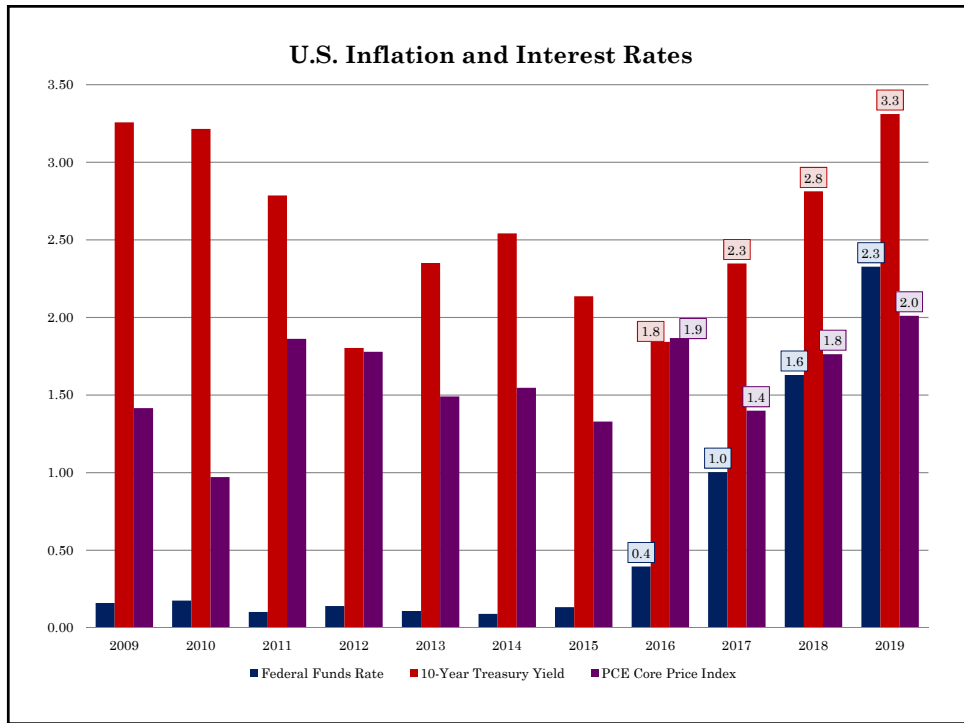
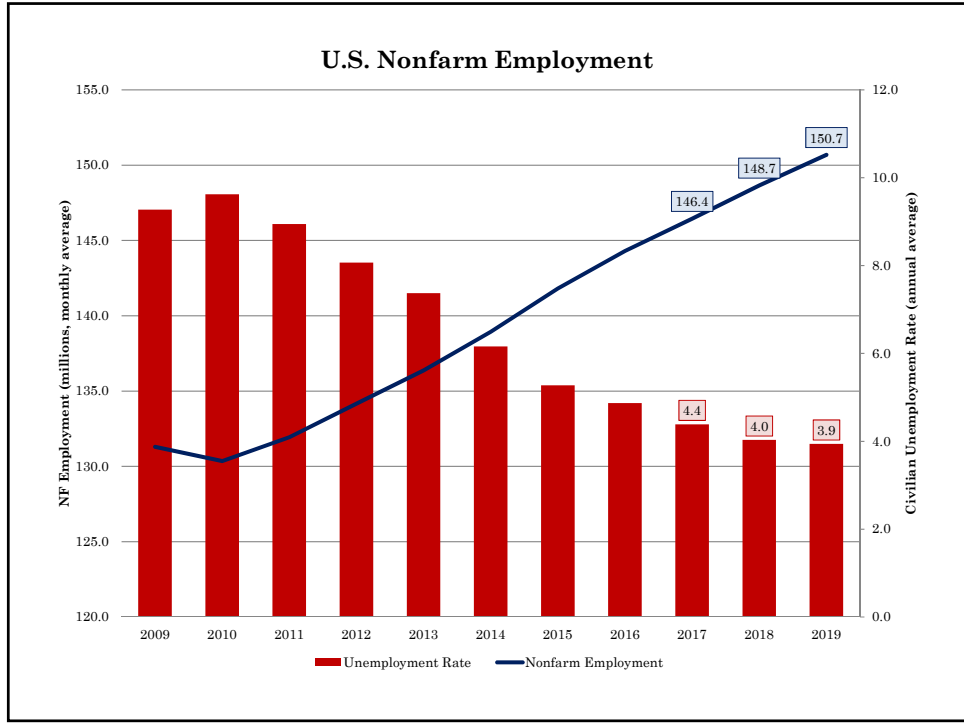


- ### Economic Future of Oklahoma
- Statewide connected amenity complex
 - Education
 - Transportation
 - Recreation
 - Use technology to connect people and places
 - Proactively manage signals the state sends
 - Don't let the conversation just happen and don't unnecessarily feed the negative narrative

Economic Future of Oklahoma

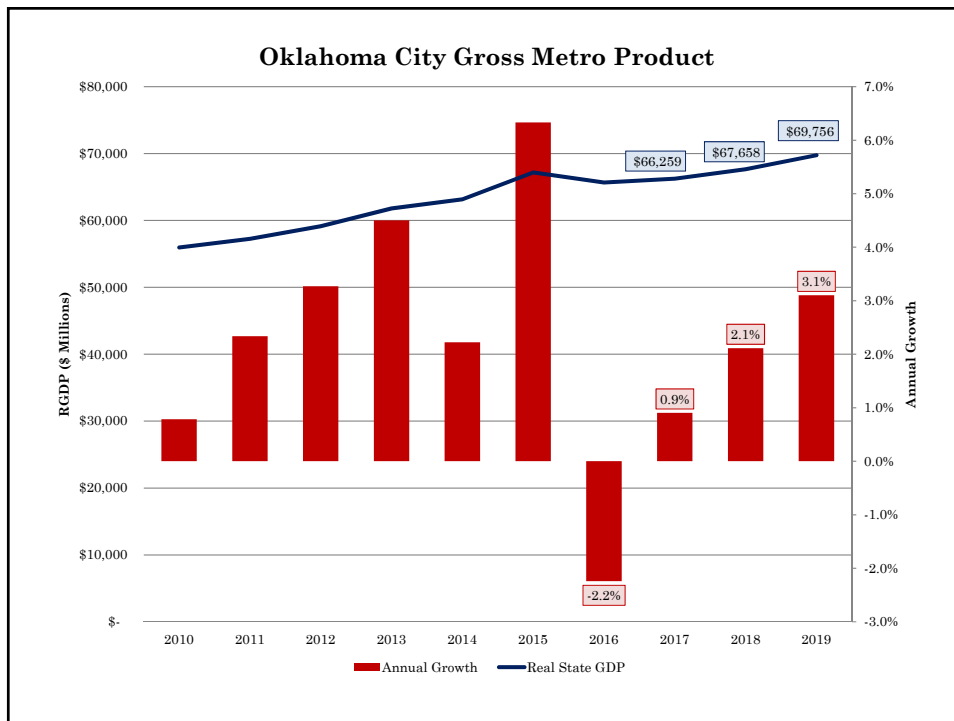
- Crude oil demand likely to grow by 0.5% to 1.0% per year through 2035
- Unlikely that we see peak oil demand earlier (but keep an eye out for disruptors!)
- Price matters in determining the pace of the transition
- Peak oil demand in the 2035 – 2050 timeframe
- Natural gas peak demand likely much later

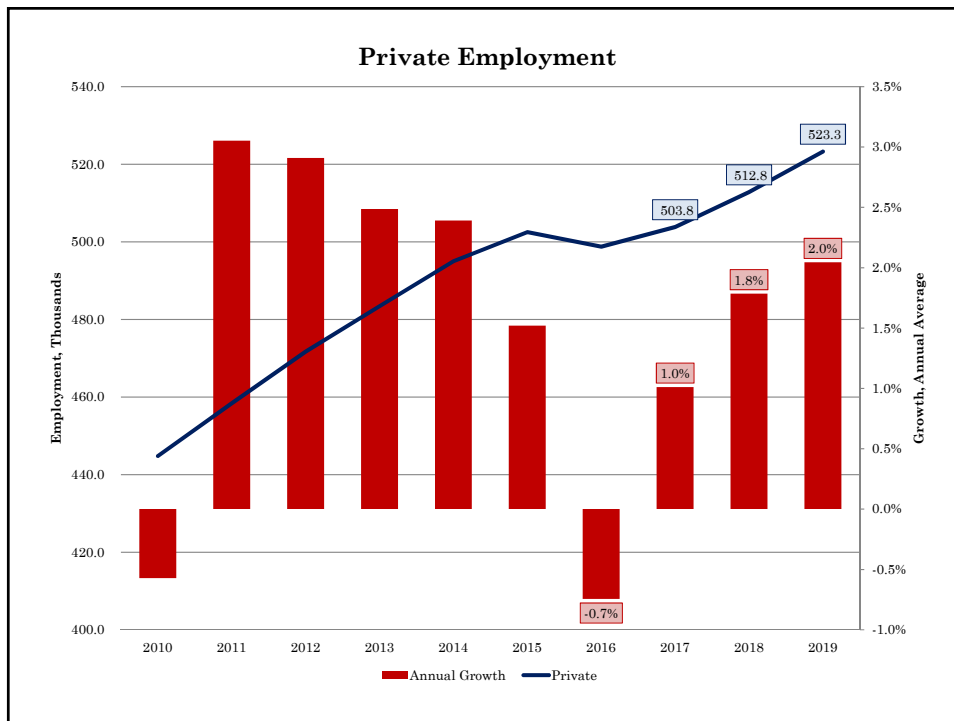
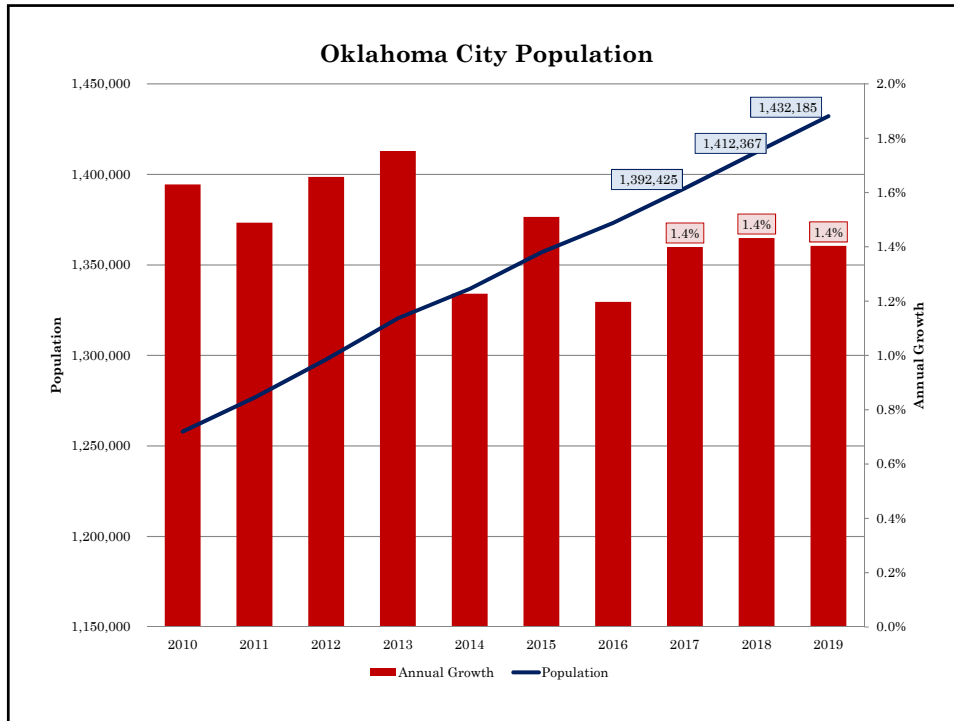


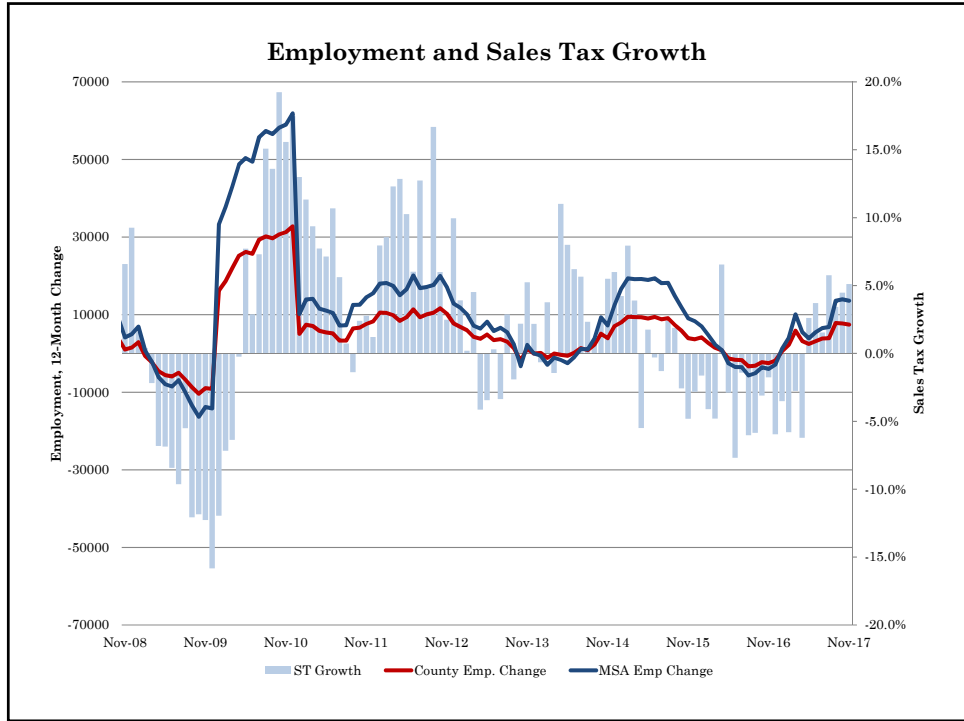


Comments

- The U.S. Economic Outlook
 - NIPA methodology will result in modest pressure to increase reported GDP growth even though there is no change in real economic activity
 - The Fed grew the balance sheet without significant disruption to the real economy. Can it shrink the balance sheet without disruption? How will the monetary policy philosophy of the Fed change under new leadership?
 - Should we expect a stock market correction in 2018? How much longer can the market “melt up”? Will a correction derail economic momentum?
 - Household spending is growing faster than household income, suggesting unsustainable spending out of saving and/or borrowing







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%

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%

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%
<i>Average*</i>	<i>6.45%</i>	<i>6.76%</i>
FY 2019 Outlook		
	Model 1 (Earnings)	Model 2 (Employment)
<i>FY 2019</i>	<i>3.00%</i>	<i>3.30%</i>

*FY 2018 updated forecast range: 5.5% - 5.8%; Original forecast: 3.8% - 4.2%

Conclusion

- Lots of interesting things going on in the economy right now. With any luck, nothing interesting happens in Oklahoma City in 2018
- Expect a long, slow transition away from energy as the state's defining sector with industry activity becoming less prone to boom and bust cycles over time
- Expect urbanization trends to continue with population, production, and income concentrated in the Oklahoma City and Tulsa
- Moving away from the baseline expectation of a strong year of economic and fiscal activity in 2018 will require an outside shock to the system – so keep your eyes open



FINANCIAL TREND
MONITORING SYSTEM

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

Financial Trend Monitoring System (FTMS)

Provides an overall picture of Oklahoma City's financial condition

- Adapted from ICMA handbook *Evaluating Financial Condition*



FTMS Results



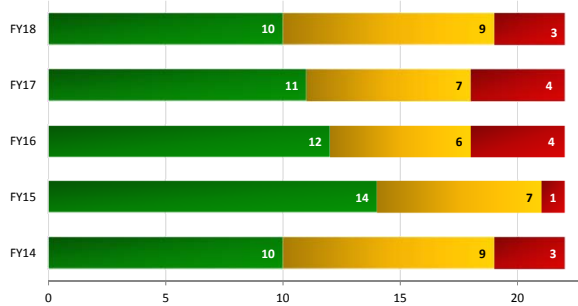
POSITIVE



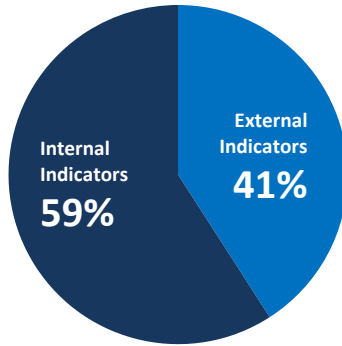
NEUTRAL



NEGATIVE



22 Financial Trend Indicators (FTMS) Indicators



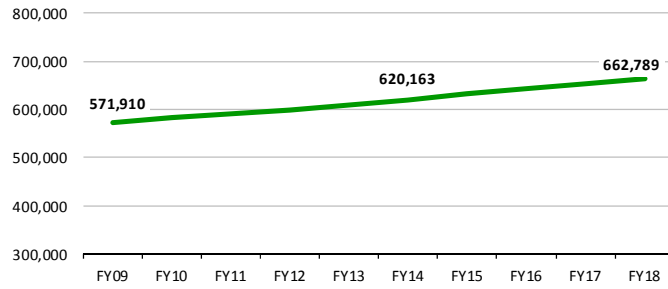
External Indicators track conditions and demographics in Oklahoma City that tell us what is happening in the environment that we live and operate in. They help put internal indicators into context.

- ✓ Population
- ✓ Crime Rate
- ✓ Airport Activity
- ✓ Labor Force
- ✓ Property Value
- ✗ Private Development
- Weekly Earnings
- Office Vacancy Rate
- Active Drilling Rigs

Population

FINANCIAL TRENDS

EXTERNAL INDICATOR



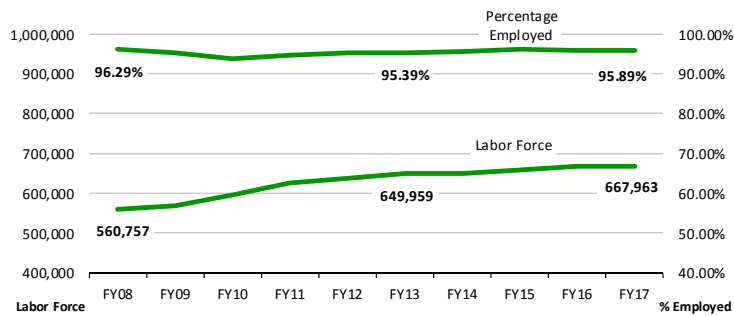
FIVE-YEAR FORECAST 29

Labor Force

And Percentage of Labor Force Employed in the Oklahoma City Metropolitan Statistical Area (OKC-MSA)

FINANCIAL TRENDS

EXTERNAL INDICATOR



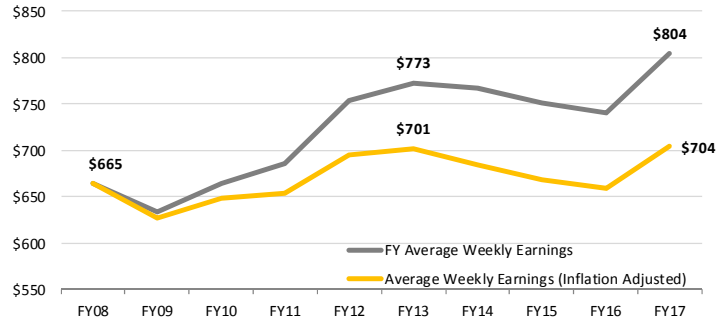
FIVE-YEAR FORECAST

Average Weekly Earnings

OKC-MSA, Private Sector

FINANCIAL TRENDS

EXTERNAL INDICATOR

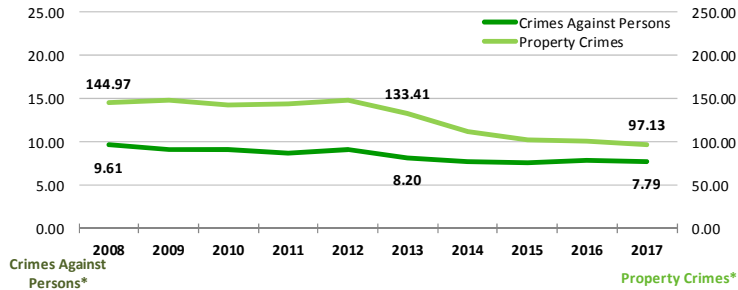


FIVE-YEAR FORECAST 31

Crime Rate

FINANCIAL TRENDS

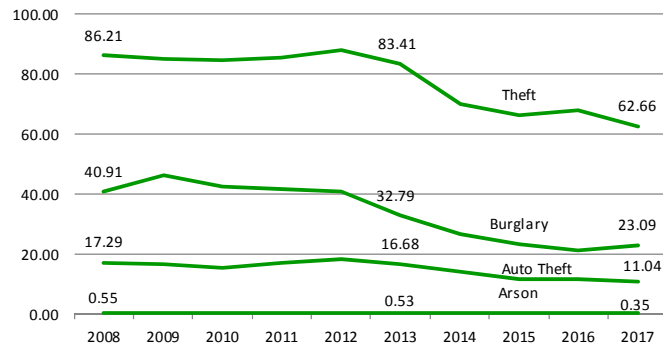
EXTERNAL INDICATOR



FIVE-YEAR FORECAST

Property Crimes

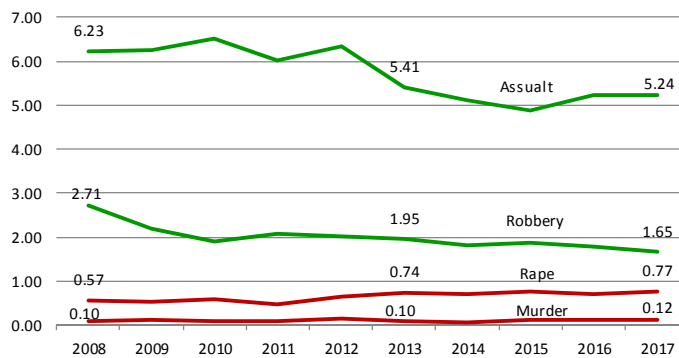
Per 1,000 households / 10 Year History by Category



FIVE-YEAR FORECAST 33

Person Crimes

Per 1,000 residents / 10 year history by category



EXTERNAL INDICATOR

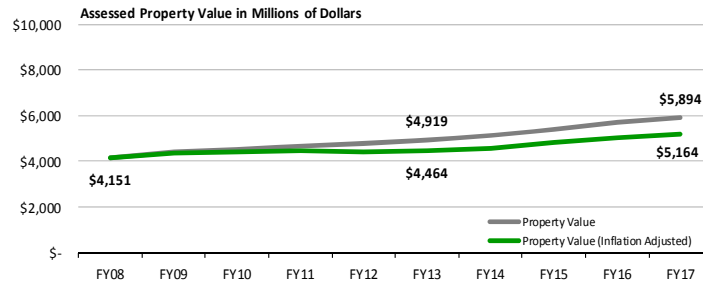
FIVE-YEAR FORECAST 34

Property Value

Assessed Property Value in Millions of Dollars

FINANCIAL TRENDS

EXTERNAL INDICATOR

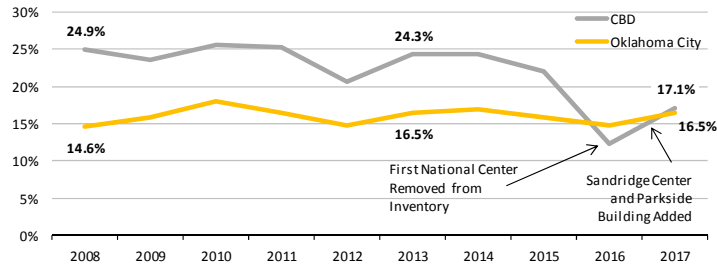


FIVE-YEAR FORECAST 35

Office Vacancy Rate

FINANCIAL TRENDS

EXTERNAL INDICATOR



FIVE-YEAR FORECAST 36

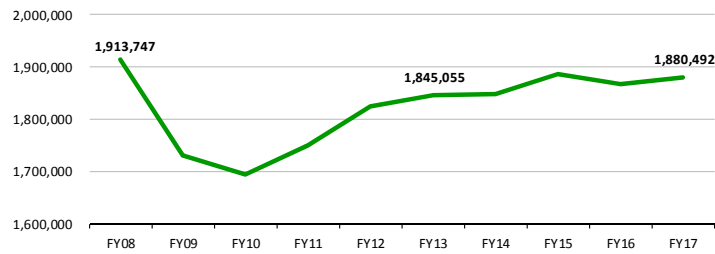
Airport Activity



Will Rogers World Airport
Number of Boarding Passengers

FINANCIAL
TRENDS

EXTERNAL
INDICATOR



Current
Fiscal Year
Activity:
8.7%
Growth
July - December

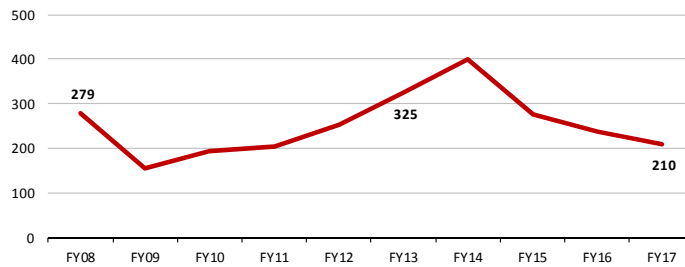
FIVE-YEAR FORECAST

Private Development Plans



FINANCIAL
TRENDS

EXTERNAL
INDICATOR

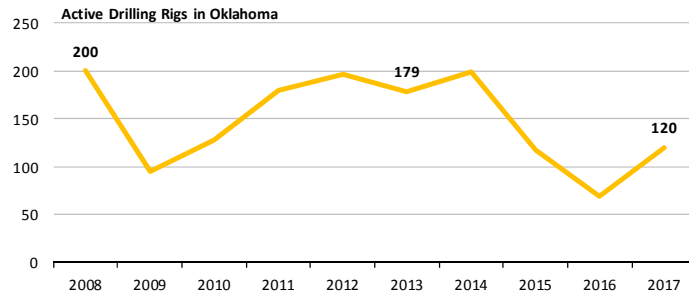


FIVE-YEAR FORECAST 38

Active Drilling Rigs

FINANCIAL TRENDS

EXTERNAL INDICATOR



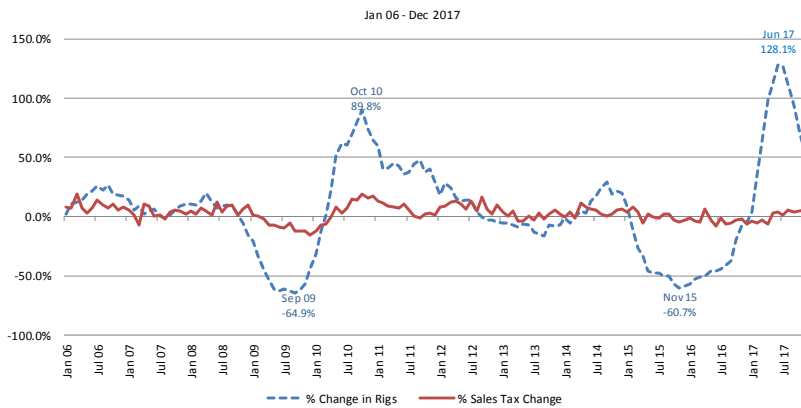
FIVE-YEAR FORECAST 39

Active Drilling Rigs

% Change in Active Drilling Rigs vs. % change in City Sales Tax

FINANCIAL TRENDS

EXTERNAL INDICATOR



FIVE-YEAR FORECAST 40

Internal Indicators track the City's budgetary and financial condition and present a straightforward picture of financial strengths and weaknesses.

REVENUES

- ✔ Revenue Per Capita
- ✘ Revenue Accuracy
- ✘ Sales Tax Revenues
- % of General Fund from Sales Tax
- Hotel Tax
- Grant Revenues

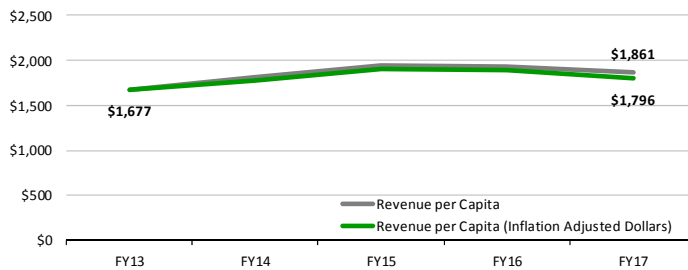
EXPENSES

- Employees per 1,000 Citizens
- Fringe Benefits
- ✔ Pension Funding
- Long Term Debt

OPERATIONS

- ✔ Fund Balance
- ✔ Liquidity
- ✔ Enterprise Working Capital

Revenue Per Capita

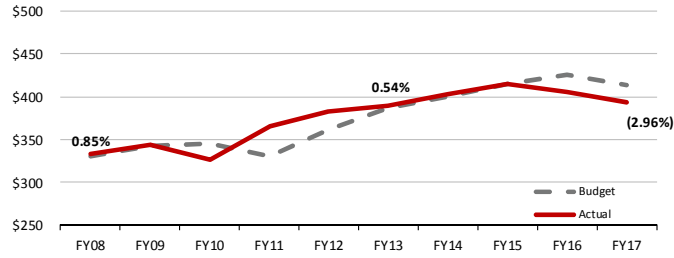


FINANCIAL
TRENDS

INTERNAL
INDICATOR

Revenue Accuracy

General Fund Collections Compared to Budget

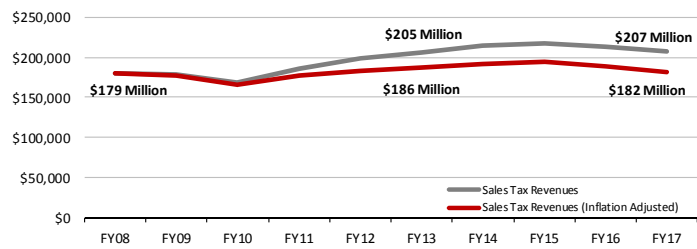


FIVE-YEAR FORECAST 43

FINANCIAL
TRENDS

INTERNAL
INDICATOR

Sales Tax Revenue



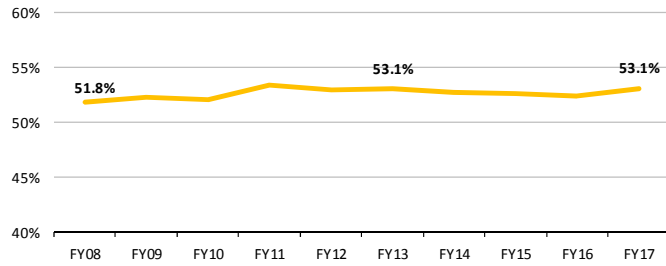
FIVE-YEAR FORECAST 44

Sales Tax

As a Percentage of General Fund

FINANCIAL
TRENDS

INTERNAL
INDICATOR



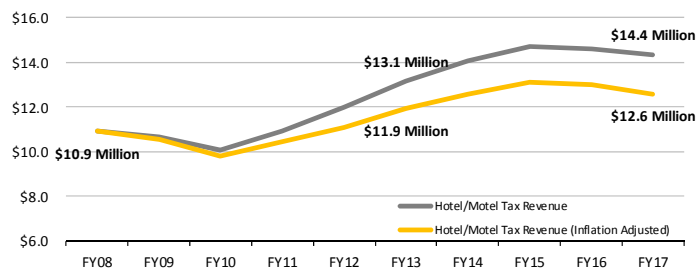
FIVE-YEAR FORECAST 45

Hotel Tax Revenue

In Millions

FINANCIAL
TRENDS

INTERNAL
INDICATOR



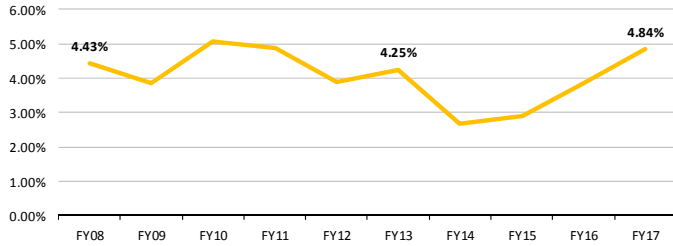
FIVE-YEAR FORECAST 46

Grant Revenue

As a percentage of Total Operating Revenue

FINANCIAL TRENDS

INTERNAL INDICATOR



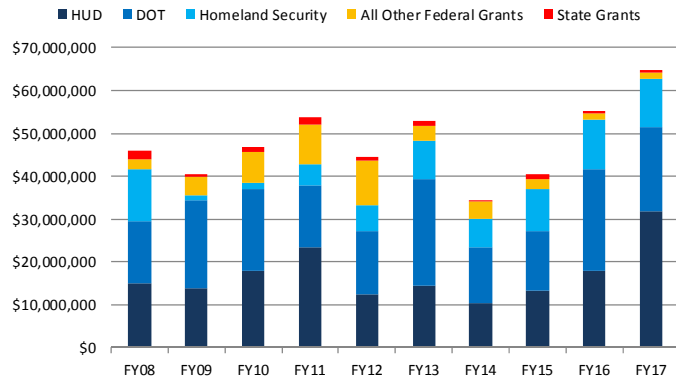
FIVE-YEAR FORECAST 47

Grant Revenue

By Granting Agency

FINANCIAL TRENDS

INTERNAL INDICATOR

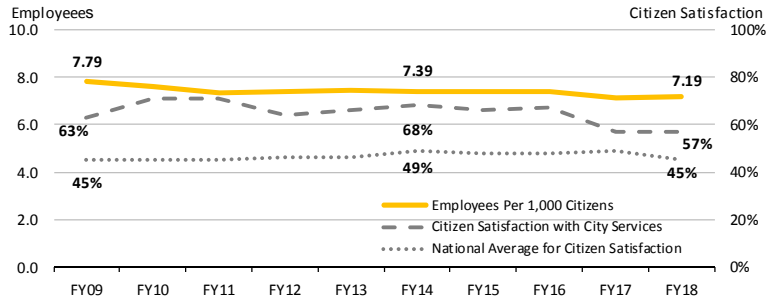


FIVE-YEAR FORECAST 48

Employees Per 1,000 Citizens

FINANCIAL TRENDS

INTERNAL INDICATOR



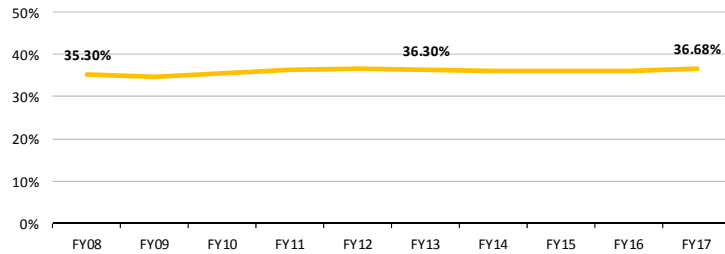
FIVE-YEAR FORECAST

Fringe Benefits

As a Percentage of Total Compensation

FINANCIAL TRENDS

INTERNAL INDICATOR



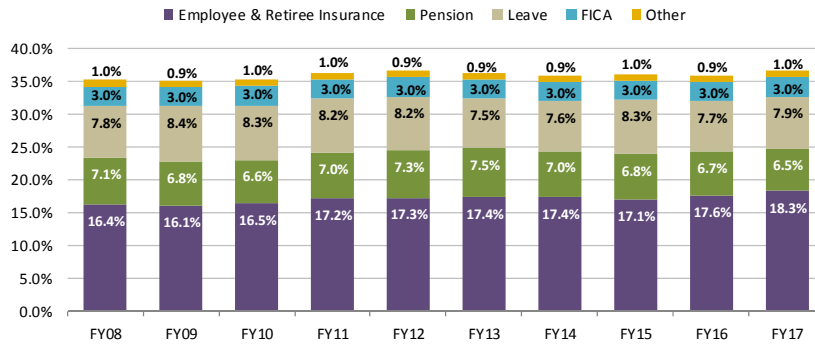
FIVE-YEAR FORECAST 50

Fringe Benefits

As a Percentage of Total Compensation

FINANCIAL TRENDS

INTERNAL INDICATOR



FIVE-YEAR FORECAST 51

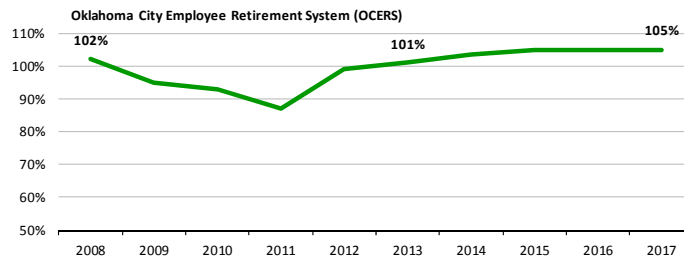
Pension Funding



Oklahoma City Employee Retirement System (OCERS)

FINANCIAL TRENDS

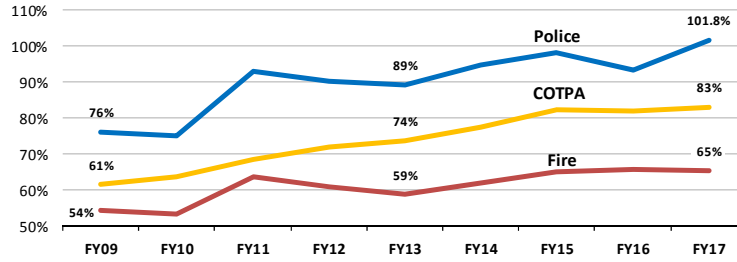
INTERNAL INDICATOR



FIVE-YEAR FORECAST 52

Pension Funding

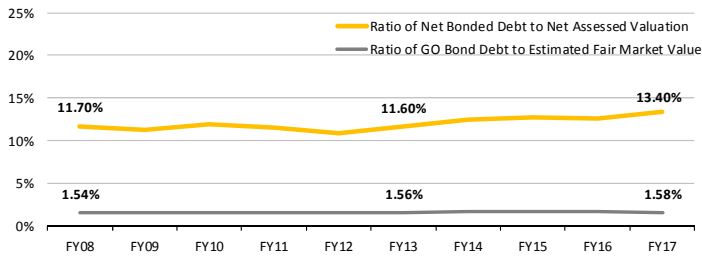
Accrued Liability Funding Ratio



FIVE-YEAR FORECAST 53

Long Term Debt

Ratio of Net General Obligation Bonded Debt to Net Taxable Assessed Value



FIVE-YEAR FORECAST 54

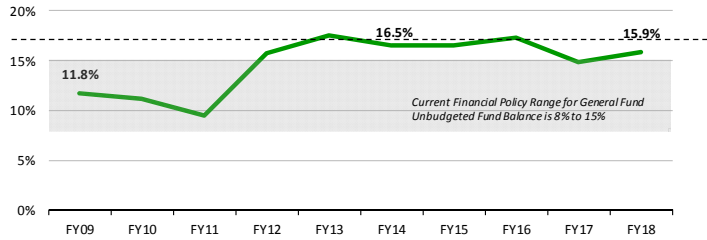
Fund Balance



As a percentage of General Fund Budget

FINANCIAL TRENDS

INTERNAL INDICATOR



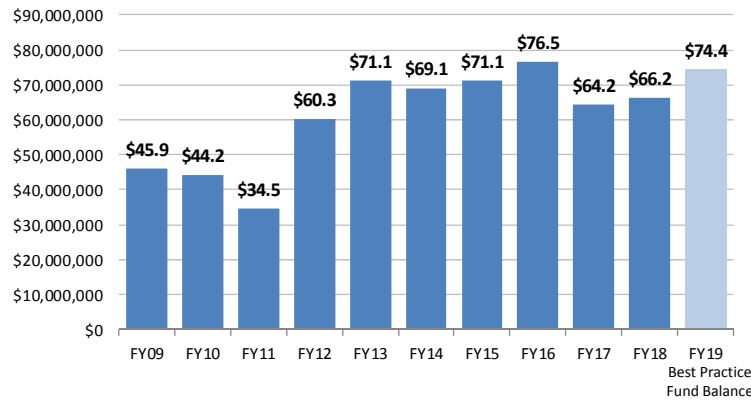
FIVE-YEAR FORECAST 55

Fund Balance

Beginning Fund Balance

FINANCIAL TRENDS

INTERNAL INDICATOR



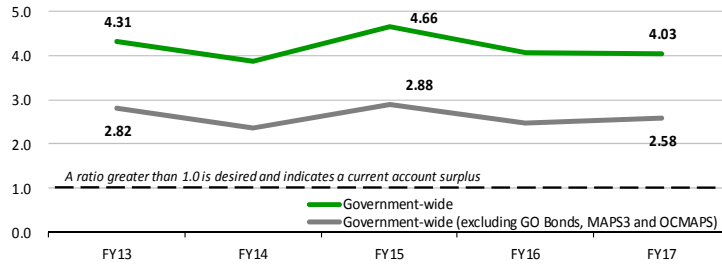
FIVE-YEAR FORECAST 56

Liquidity

Ratio of Cash, Cash Equivalents, and Current Investments to Current Liabilities

FINANCIAL TRENDS

INTERNAL INDICATOR



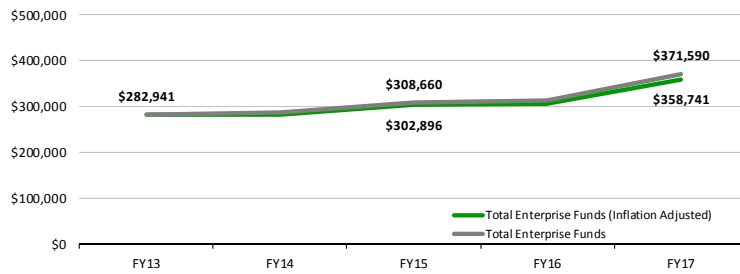
FIVE-YEAR FORECAST 57

Enterprise Working Capital

In Millions

FINANCIAL TRENDS

INTERNAL INDICATOR



FIVE-YEAR FORECAST 58

Indicators We Need to Continue Monitoring

External Indicators

- Private Development Plans

Internal Indicators

- Revenue Accuracy
- Sales Tax Collections
- Fund Balance

SUCCESSFUL OUTCOMES
AND FORECAST ISSUES

FIVE-YEAR
FORECAST
FY 2019-2023

GO Bond Package



Millage rate to remain
at an average of 16 mills

13 PROPOSITIONS: \$967 million approved by voters in September 2017

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

Better Streets, Safer City

Projected revenue of \$240 Million

- 27-Month Temporary Sales Tax
- Passed by Voters in September, 2017
- Started January 1, 2018
- First collections this month



Street Resurfacing	\$168 Million
Street Enhancements	\$24 Million
Sidewalks	\$24 Million
Trails	\$12 Million
Bicycle Infrastructure	\$12 Million

Public Safety Fleet Replacement

Projected revenue of \$29 Million

- 27-Month Temporary Use Tax
- Started January 1, 2018
- First collections this month
- Will fund Public Safety Fleet Replacement Including in-vehicle mobile data computers (MDS) and communications equipment



Sales and Use Tax Increase

¼ cent permanent sales and use tax increase

- Added 81 Police Officers, restored funding for 48 frozen Police Officer Positions
- Added 39 Firefighters, restored funding for 21 frozen Firefighters
- Added 5 positions to Public Works
- Started January 1, 2018
- First collections this month



Radio System

- Phased replacement of current radio system
- Upgrades to P25, or Project 25, standard
- Sharing capital cost of \$13.1 million with other governmental identities that use the system












Municipal Court

- New building completed in September 2017
- 65,000 square feet in 3-story structure
- Funded with GO Bonds, Court Fees, and MAPS 3 Use Tax



SUCCESSFULL
OUTCOMES

 BODY WORN CAMERAS	 COURT RECORDS SYSTEM	 BUS NIGHT SERVICE
 EMPLOYEE MEDICAL CLINIC	 OPEB LIABILITY	 IMPACT FEES
 WATER CONSERVATION	 WATER RIGHTS SETTLEMENT	 PRIMARY DATA CENTER

FIVE-YEAR FORECAST 67

FORECAST
ISSUES

Forecast issues are **financial issues** facing departments in the coming years

- 1

General overview of the issue
Not a detailed cost estimate
- 2

Provides early warning for emerging issues
departments will face in coming years

All 43 department issues are included in the forecast document beginning on page 90

FIVE-YEAR FORECAST 68

Highlighted Issues

- Key Financial Issues Facing Departments
- Raising Awareness to Stimulate Conversation and Action
- 7 Issues Highlighted
- Possible Direction and Next Steps Identified




AMERICAN INDIAN CULTURAL CENTER AND MUSEUM

- **Construction will resume this year**
- **Assume responsibility for future operations and maintenance**
- **Take ownership of the undeveloped commercial property surrounding the facility and partner with the Chickasaw Nation through the AICCM Land Development, LLC to develop the commercial property around the facility**

POSSIBLE DIRECTION AND NEXT STEPS

- Construction Funding
- Complete Agreements with State of Oklahoma, AICCM Land Development, LLC, and an Operations Contract
- Funding for Operations and Maintenance
- Potential Impact on Operating Funds



FORECAST ISSUES


FACILITY CAPITAL MAINTENANCE COSTS

- Original MAPS projects have been in public use for 10 to 20 years
- MAPS Use Tax was used for capital maintenance but is almost depleted
- MAPS/MAPS 3 projects, GO Bond Projects, and CIP Projects will need a capital maintenance funding source

POSSIBLE DIRECTION AND NEXT STEPS

- General Fund
- MAPS 3 Surplus Funding
- General Obligation Bonds
- Facility Charges

FIVE-YEAR FORECAST 71



FORECAST ISSUES


IMPACT OF BUDGET REDUCTIONS ON OPERATIONS

- **¼ cent sales tax increase restored 69 public safety positions and added an additional 120 public safety positions**
Police Total = 129 / Fire Total = 60
- **Reduced staffing and services in other City departments**
- **FY18 General Fund revenue collections anticipated to be close to FY15 Funding Levels**
(excluding the permanent ¼ cent Sales and Use Tax increase)

POSSIBLE DIRECTION AND NEXT STEPS

- Support State Efforts to Expand Sales Tax Base
- Support Efforts to Allow Property Tax for Operations

FIVE-YEAR FORECAST 72



FORECAST ISSUES

LONG TERM WATER CAPITAL

WATER UTILITY – Water Supply

- \$700 million for construction of the 2nd Atoka Pipeline
- Construction to be completed by FY23

WASTEWATER UTILITY – Regulatory Compliance

- \$60 million for upgrades and increased capacity from 6 MGD to 9 MGD to meet growth demands

POSSIBLE DIRECTION AND NEXT STEPS

- Rate Adjustments

FIVE-YEAR FORECAST 73



FORECAST ISSUES

MAPS 3 OPERATING COSTS

CITY RESPONSIBLE FOR PROJECT OPERATING COSTS

- Streetcar / Scissortail Park / Convention Center

POSSIBLE DIRECTION AND NEXT STEPS

- User Fees and Sponsorships
- Hotel Tax Increase
- Parking District or Business Improvement District
- Private Partnerships
- General Fund Support

FIVE-YEAR FORECAST 74



**FORECAST
ISSUES**

OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

- Progress made last year by increasing eligibility requirements for early retirees and ending subsidized retiree health insurance for new employees hired after January 1, 2017.
- Changes are expected to reduce liability by \$90 million in the next 10 years
- Plan still has an unfunded liability in excess of \$500 million

POSSIBLE DIRECTION AND NEXT STEPS

- Limit subsidized insurance to Medicare Advantage Plans

FIVE-YEAR FORECAST 75



**FORECAST
ISSUES**

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

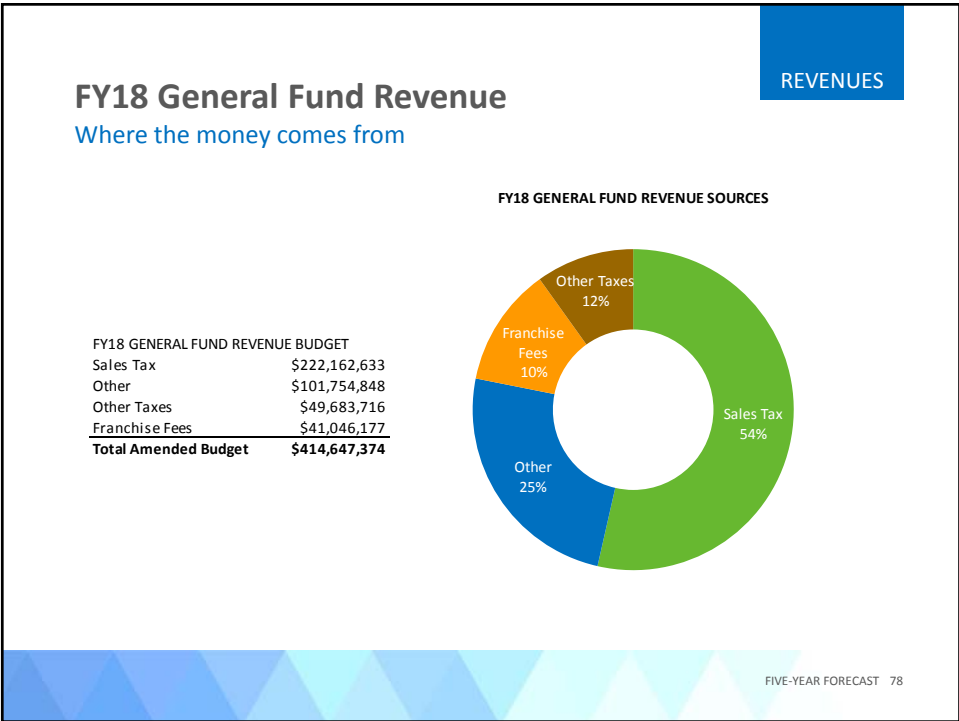
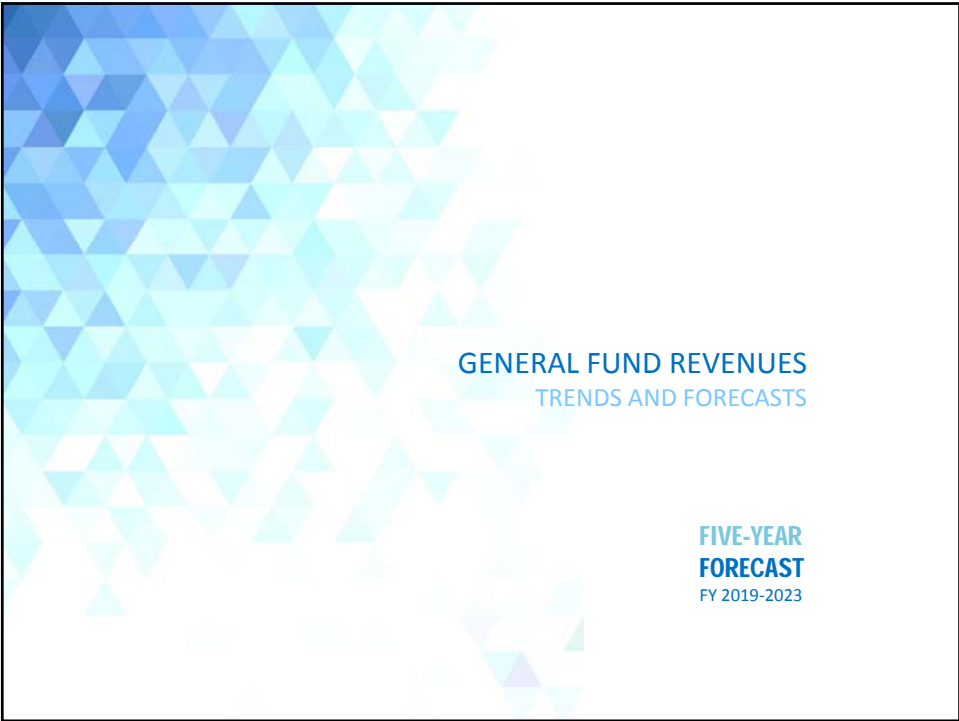
FACILITIES, FLEET, AND EQUIPMENT

- Replacement of City buses
- Additional Night Routes/Sunday Service
- Regional Transit Operation

POSSIBLE DIRECTION AND NEXT STEPS

- Dedicated Funding for Public Transportation

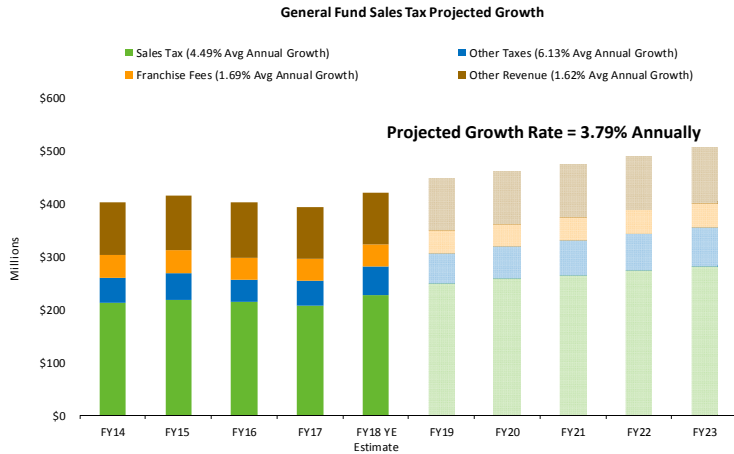
FIVE-YEAR FORECAST 76



General Fund Revenue

History and Projected Revenue Growth

REVENUES



FIVE-YEAR FORECAST 79

GENERAL FUND EXPENSES TRENDS AND FORECAST

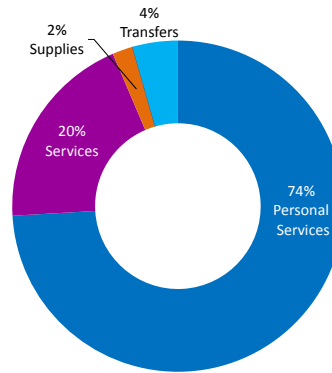
**FIVE-YEAR
FORECAST**
FY 2019-2023

FY18 General Fund Expense Budget

Where the money is spent

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
Total Amended Budget	\$414,647,374

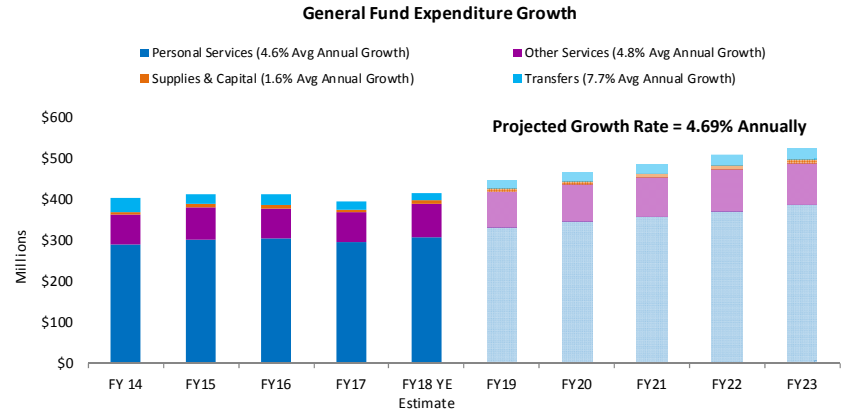


Expenses included in the forecast

	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
Total	\$0	\$1,000,000	\$1,000,000	\$5,000,000	\$1,000,000

General Fund Expenditures

History and Projected Expenditure Growth

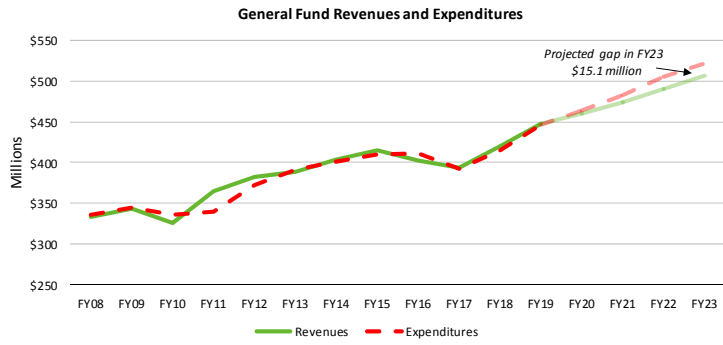


GENERAL FUND REVENUE/EXPENDITURE GAP

FIVE-YEAR FORECAST
FY 2019-2023

Projected Gap

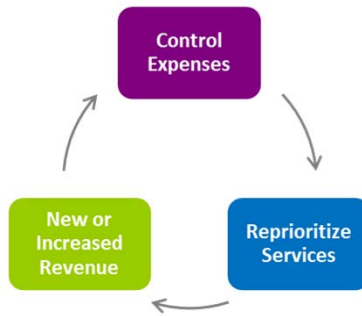
REV / EXP GAP



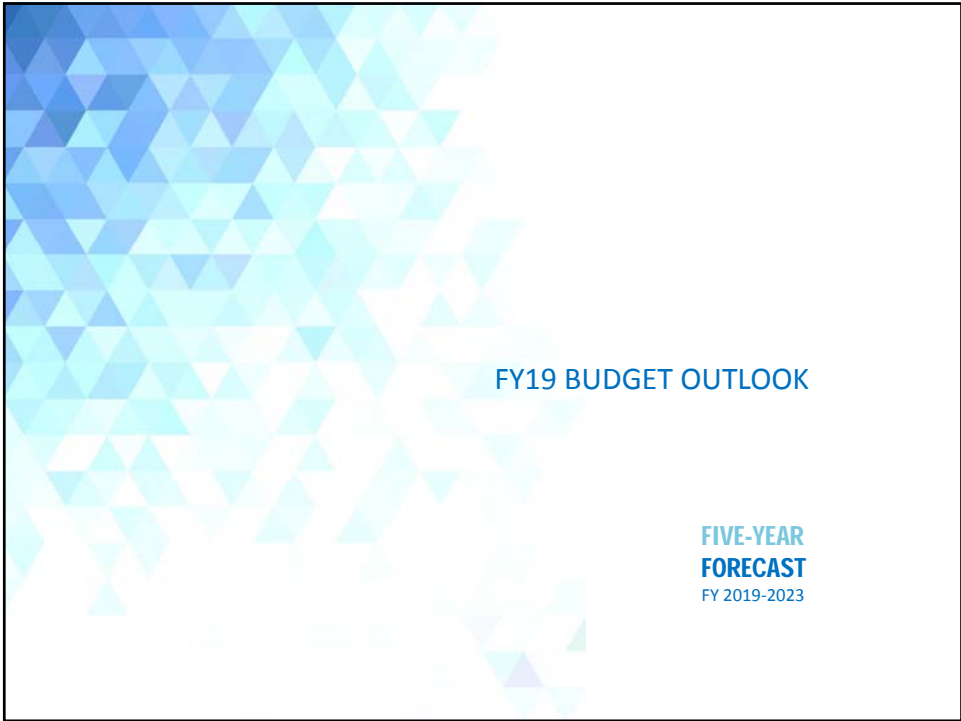
FIVE-YEAR FORECAST 85

Closing the Gap

REV / EXP GAP



FIVE-YEAR FORECAST 86



FY19 BUDGET

FY18 General Fund Revenue Status

Seven of the 10 revenue categories were above budget as of December 31st

Sales Tax	\$3,565,733	●
Use Tax	\$1,169,623	●
Franchise Fees	\$995,310	●
Service Charges	-\$1,940,546	●
Administrative Charges	\$81,010	●
Fines & Forfeitures	-\$814,838	●
Licenses & Permits	-\$329,324	●
Other Taxes	\$434,082	●
Other Revenue	\$106,233	●
Operating Transfers In	\$0	●
GENERAL FUND TOTAL	\$3,267,282	●

FIVE-YEAR FORECAST 88

FY18 General Fund Outlook

Mid-Year Budget Amendment in FY18

- Increased budget \$10.1 million



Police

- Funded 48 frozen Uniformed Police Officer Positions
- Added 81 Uniformed Police Officers



Fire

- Funded 21 frozen Fire Fighter Positions for new Fire Station in SE Oklahoma City
- Added 21 Fire Fighters for new Fire station in SW Oklahoma City
- Added 15 Fire Fighters to restore Engine 51
- Added 3 Fire Fighters to supplement staffing

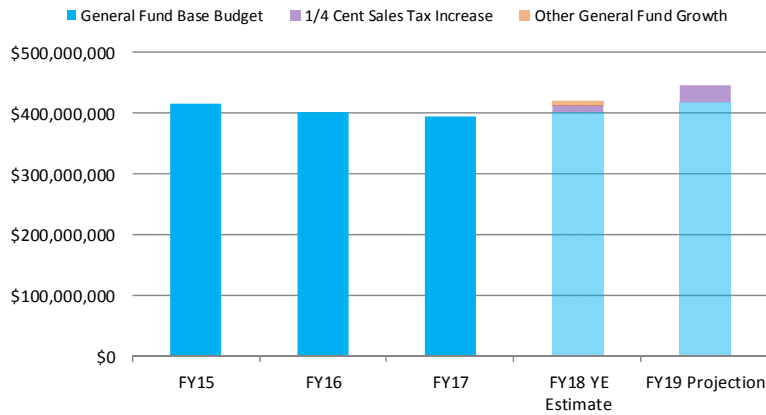


Public Works

- Added 5 positions to Public Works to manage the Better Streets, Safer City Program

FY19 General Fund Revenue Outlook

General Fund Budget



Projected Revenue Growth in FY19

Sales Tax	9.80%	●
Use Tax	8.45%	●
Other Taxes	0.94%	●
Franchise Fees	0.06%	●
Licenses and Fees	0.76%	●
Fines	-0.37%	●
Other Revenue	7.67%	●
Service Charges	3.95%	●
Administrative Charges	-2.48%	●
Transfers	-69.42%	●
Overall Growth	6.19%	●

FY19 Expense Assumptions

- **Growth in a number of areas**
 - Personal Services growing \$22.6 million
 - Services growing \$6.9 million
 - Transfers \$1.9 million

FY19 Budget Calendar

Proposed Budget submitted to Mayor and Council and 1st Finance Committee Meeting (Public Hearing)

MAY 1

MAY 15

2nd Finance Committee Meeting (Public Hearing)

3rd Finance Committee Meeting (Public Hearing)

MAY 29

JUNE 5

Adoption of FY19 Budget

FY19 Budget takes effect

JULY 1

BUDGETING AND FINANCIAL PLANNING POLICIES

FIVE-YEAR FORECAST
FY 2019-2023

Financial Policies Background

- Last updated and adopted February 15, 2011
- Contains some basic standards for City finances:
 - Must have a balanced budget
 - Can't borrow for operations
 - Must comply with state law, the Municipal Budget Act
 - Shall develop and present a performance-based budget
 - How to handle budget amendments
 - Must develop a five year forecast
 - Interest shall accrue only to the fund that earned it
 - Contingency target of 2%

Proposed Changes to Financial Policies

- **Operating Reserve (Unbudgeted Fund Balance)**
 - Current Policy is 8-15% of budget in General Fund
 - GFOA best practice is to have a minimum of two months worth of expenses (16.7%) in operating reserve.
 - Propose a new range of 12-20% for operating reserve
- For FY18 amended budget of \$415 million:
 - Current policy \$33.2 million – \$62.3 million
 - Proposed policy \$49.8 million - \$83.0 million
 - Current operating reserve - \$63.5 million

Capital Funding

- **Currently no policy on the level of capital funding in the General Fund**
- **Current level is about 1%**
- **Proposed policy sets a target of 1%-3%**
- **Trying to raise the profile of capital funding for maintenance of City assets**

Miscellaneous Updates

- **Sets a goal to maintain diversified revenue sources**
- **States commitment to fund pension obligations**
- **Identifies other financial policies to highlight other related policies of the City (e.g., Investment Policy, Purchasing Policies, Cash Handling Policy)**

