THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FISCAL YEAR 2020 - 2024

An economic and operational outlook for the city.



CONTENTS

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

SECTION 1

EXECUTIVE SUMMARY

FIVE-YEAR FORECAST

FISCAL YEAR 2020 - 2024

An economic and operational outlook for the city.

EXECUTIVE SUMMARY

Overall, the city is in a favorable financial position as strong financial growth continued into Fiscal Year 2019 (FY19); growth is projected to slow to a moderate rate in the last half of the fiscal year. The city has again worked with Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University, to develop the economic outlook for the coming year. Dr. Evans' expectation is for the metro economy to grow modestly at 2.0% in calendar year 2019, assuming a national recession does not occur. The Five-Year forecast that follows provides an evaluation of the city's current financial condition and is designed to provide accurate, timely, and objective information about the City's financial condition as well as a view of the economic and operational outlook for the city. Staff will continue to work with the City Manager to present Council with a proposed FY20 budget that balances operating needs with available resources.

GENERAL FUND CURRENT FISCAL YEAR

The 1/4 cent increase in the sales and use tax rate, and a strong local economy, generated growth of 13.5% through December 2018. General Fund revenue collections were $4.1 million above year-to-date budget projections with Use Tax collections from online retailers driving the majority of growth. Expenses were $9.2 million below budget as departments were challenged with filling vacant positions. The unemployment rate averaged less than 3% – a sign that the demand for workers exceeds availability. The Police Department will graduate 242 new officers from five Police academies between December 2018 and January 2020. Other departments are developing strategies for employee recruitment.

FINANCIAL EVALUATION TOOLS

The *Financial Trend Monitoring System (FTMS)* looks back at how multiple key indicators have performed over the last five and ten years and considers the trend of these indicators to assess Oklahoma City's current financial condition. This system provides the city with a more comprehensive evaluation of financial condition rather than focusing on individual indicators, such as fund balance. The overall results of the FTMS indicator ratings were 61% positive, 22% neutral and 17% negative which was improvement from last year when only 45% indicators trended positive. Key indicators that trended positive included sales tax revenues, fund balance, average weekly earnings, labor force and employment, and airport activity.

Many financial issues are beyond the scope of the annual budget process and require other solutions. Departments identified *47 financial issues* the City will be facing over the next five years. Identifying significant issues now provides an early warning system and staff can develop plans that recommend possible direction and next steps to be taken.

GENERAL FUND OUTLOOK

The economy is projected to slow to moderate growth in FY20. Service enhancements made to the FY20 base budget included budget increases that align to some of Council's top priorities such as animal control, parks and recreation, public safety, and MAPS 3 operating costs. Over the next five years, General Fund revenues are expected to average 2.9% growth annually while expenditures are projected to average 3.9% growth annually. Revenue projections are based on an economic downtown and rather than project the fiscal year in which the downturn will occur, the estimate was smoothed over the five-year outlook. The imbalance in revenue and expenditure growth patterns means that there is a projected gap of $17.0 million in FY24 in the General Fund. New revenue sources, an expanded sales tax base, and continued growth in the local economy may be needed to fund operations at a level desired by citizens. By laying out the many challenges identified, long-term strategies and priorities can be set to address the issues and projected General Fund Gap.

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

SECTION 2
INTRODUCTION

PURPOSE

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

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

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

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

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

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

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

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

STRUCTURE OF THE REPORT

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

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

Regular financial evaluations help ensure stability

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

The final sections of the forecast (Six, Seven, and Eight) provide General Fund revenue and expenditure trends and projections over the next five years and the projected gap in FY24.

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

SECTION 3

ECONOMIC OUTLOOK

Oklahoma Economic Outlook: 2019-2020

A REVIEW OF THE ECONOMIC AND FISCAL CONDITIONS IN THE U.S. AND OKLAHOMA

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

Distinguished Fellow, E Foundation for Oklahoma

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.

Introduction

Since emerging from the great recession in 2009, the U.S. economy has posted successive years of economic expansion. The growth has been modest with an average annual growth rate of 2.2% for the eight-year period from 2010 to 2017. Economic growth accelerated considerably in 2018 and is expected to top 3% for the first time since 2005. The growth, however, is a bit deceptive. Still accommodative monetary policy combined with the fiscal stimulus from the Tax Cuts and Jobs Act contributed to growth. Additionally, the escalating trade tensions of 2018 pushed to the present economic activity that might have otherwise occurred in 2019. The deception will fade in 2019 as U.S. economic performance slows to a pace more consistent with the recent recovery. Slowing global economic activity could further drag on U.S. economic performance. An expected and natural slowing of the U.S. economy in 2019 will leave it vulnerable to any unforeseen outside force or policy misstep. In fact, the theme of the 2019 outlook can be succinctly summarized as follows. Deceptive strength in 2018 leads to exceeding vulnerability in 2019.

A strong U.S. economy provides a foundation of support for local economic activity. Oklahoma, and Tulsa specifically, benefitted from a strong U.S. economy in 2018. Complementing the national economic strength was an unexpected run up in oil prices. Heading into 2018, expectations were for oil prices to stay just above the critical levels necessary to support industry activity – approximately $50 per barrel. Instead, oil prices rose to more than $70 and pushed oil and gas activity to a level perhaps described as a mini-boom. It is unlikely that 2019 levels of activity in the industry will match the expectations established by the 2018 performance. Slowing global growth, emerging U.S. weakness, and a well-supplied market portend prices working to hold above $50 rather than running quickly back to $75. The graphs below capture the reality of the strength of the industry in 2018 (the Oklahoma Energy Index) and the record levels of production realized last year.

The combination of U.S. strength and a mini-boom in the oil and natural gas sector has created a recent economic experience unlikely to be repeated in 2019. A modest slowdown in activity is likely and a more abrupt slowdown cannot be ruled out. Business leaders and policymakers would be advised to prepare for tenuous and uncertain economic conditions in the years ahead.

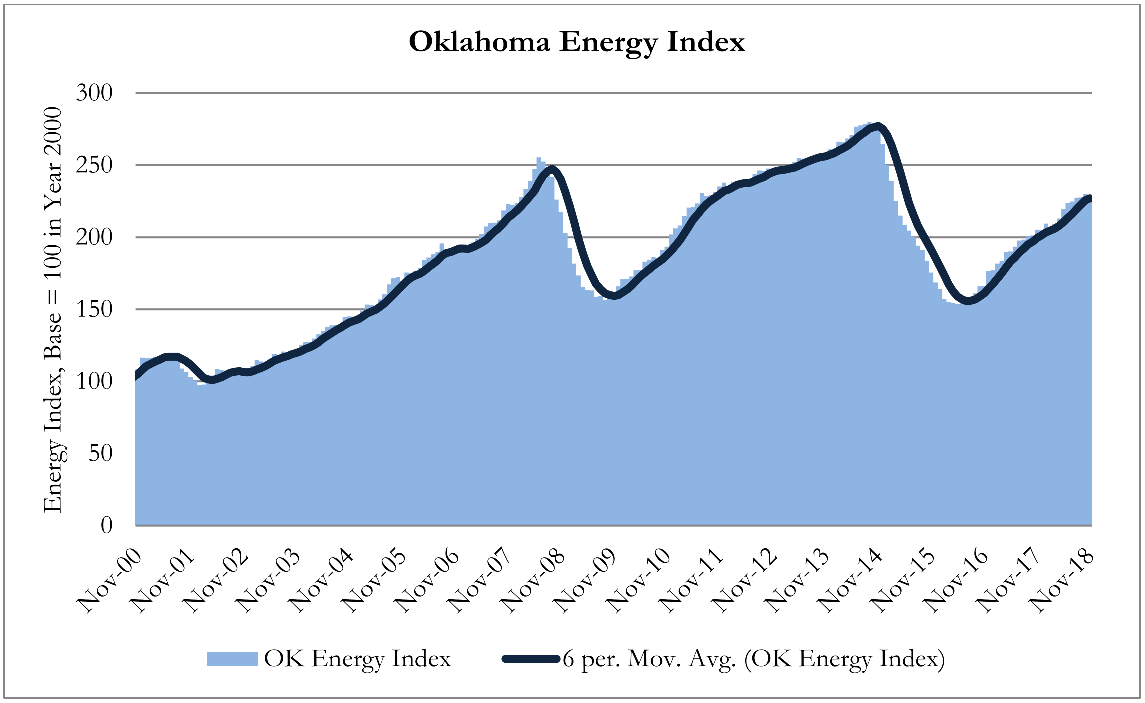


Figure 1: ***Oklahoma Energy Index***

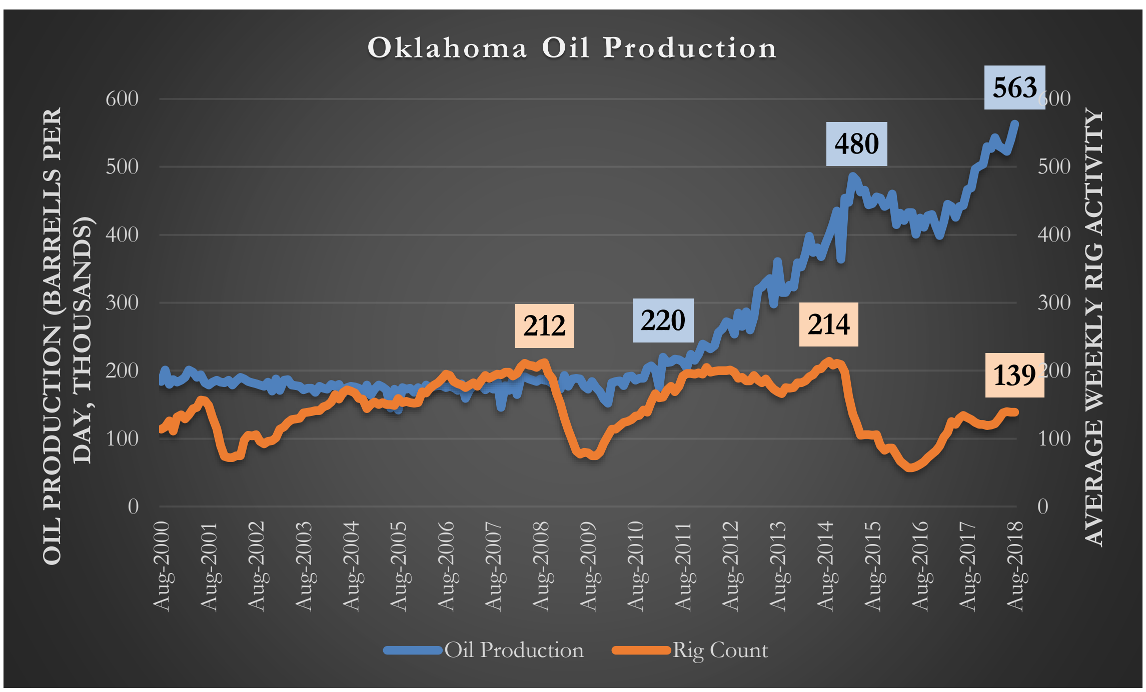


Figure 2: ***Oklahoma Oil Production***

As discussed in previous outlook commentaries, the U.S. economy weakened considerably in 2015-2016 with successive quarters of inventory drag. In fact, the U.S. experience of 2016 is best described as a growth recession – an economy that is growing, but well below its potential. In Oklahoma, the U.S. weakness was accompanied by a regional oil bust. The result was a contracting state economy that moved into recovery in the second quarter of 2017. The Oklahoma economy recovered slowly and by the middle of 2018 had returned to size roughly equal to its 2015 peak of $195 billion.

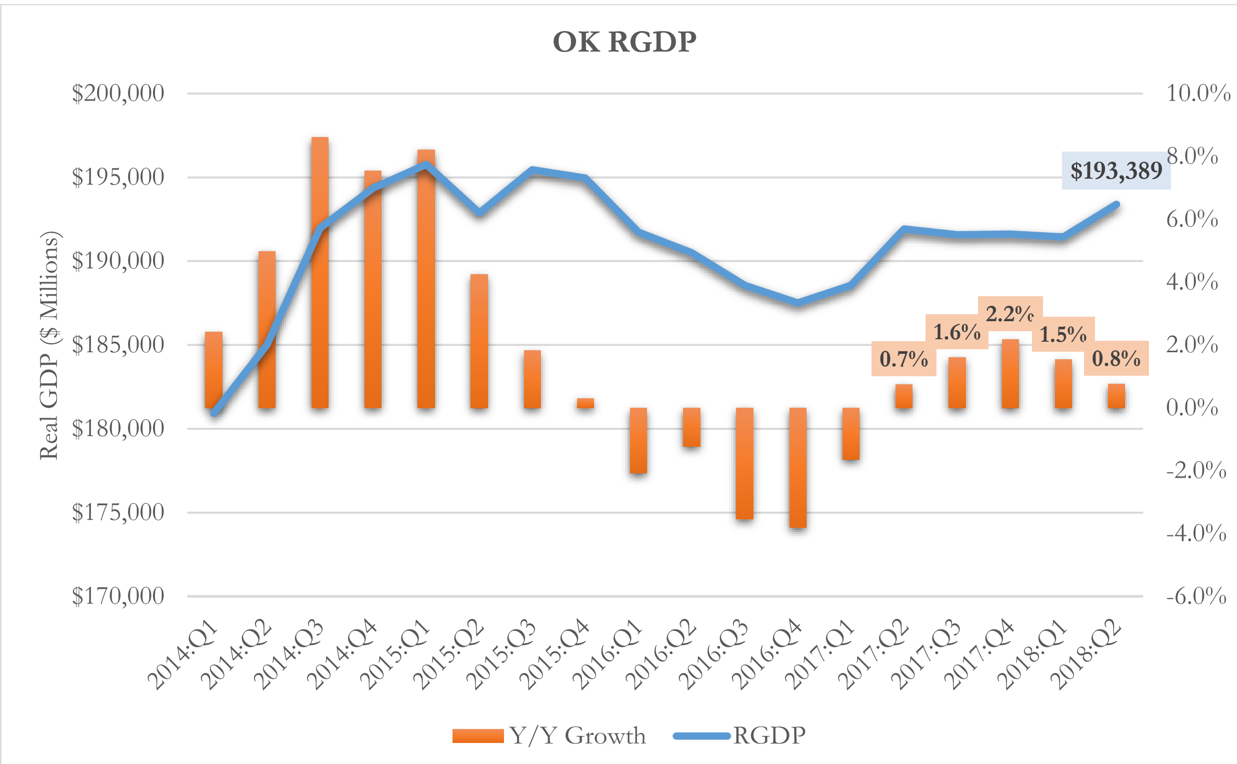


Figure 3: ***OK RGDP***

The U.S. economic cycle in 2016 exerted a larger influence over the Tulsa economy than it did in Oklahoma City. This is not surprising as Tulsa is more sensitive to national economic conditions. The Tulsa economy moved into recession in 2015 and didn't really emerge until 2018. In contrast, the Oklahoma City economy grew in 2015, contracted in 2016, but returned to growth in 2017. Oklahoma City's geography helps to mute the influence of national economic conditions. The preceding discussion leads to two conclusions. First, as U.S. conditions weaken in 2019 Tulsa will feel that reality most acutely. Second, geography can mute the effects of economic cycles but hardly immunizes Oklahoma City from the outside economic reality.

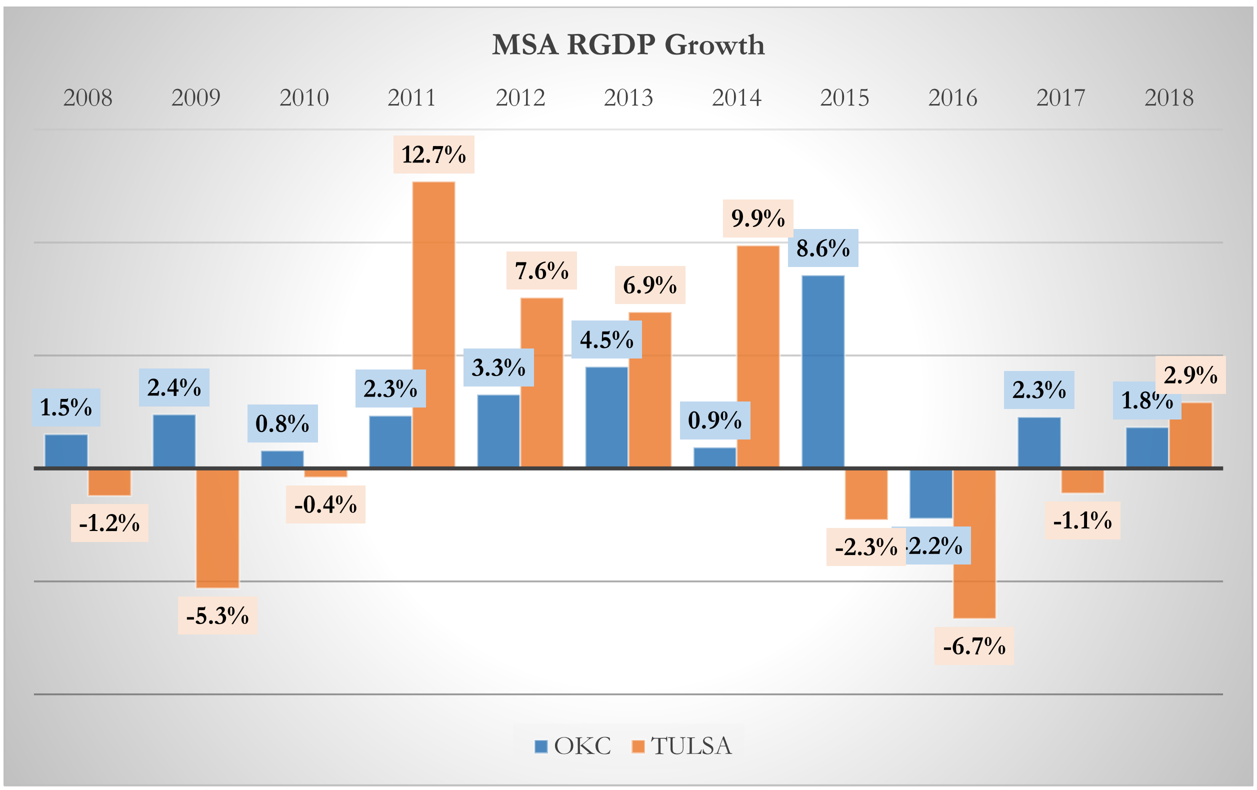


Figure 4: *MSA RGDP Growth*

In spite of the economic opportunities provided by the Native American and energy sectors in rural Oklahoma, economic growth continues to be driven by the state's urban centers. As 2018 draws to a close we can compare current nonfarm and private payroll employment to the same measure from a year ago. Remembering that 2018 was a year of considerable economic strength, the graph below emphasized that the economic strength was concentrated in Oklahoma City and Tulsa.

Across the state, nonfarm employment was up 1.9% and private employment up 2.2% from a year ago (comparing fall of 2018 to fall of 2017). Nonfarm employment growth was strongest in Tulsa (2.6%) followed by Oklahoma City (2.5%), Lawton (0.4%), and Enid (-1.0%). Private employment growth shows a similar pattern with Oklahoma City leading (2.8%) followed by Tulsa (2.6%), Lawton (-0.1%) and Enid (-1.0%). This pattern is not unexpected, but underscores the urbanization happening in Oklahoma and driving economic growth. This economic divide between urban and rural areas will continue to grow and will impact our state's culture and identity as it does so.

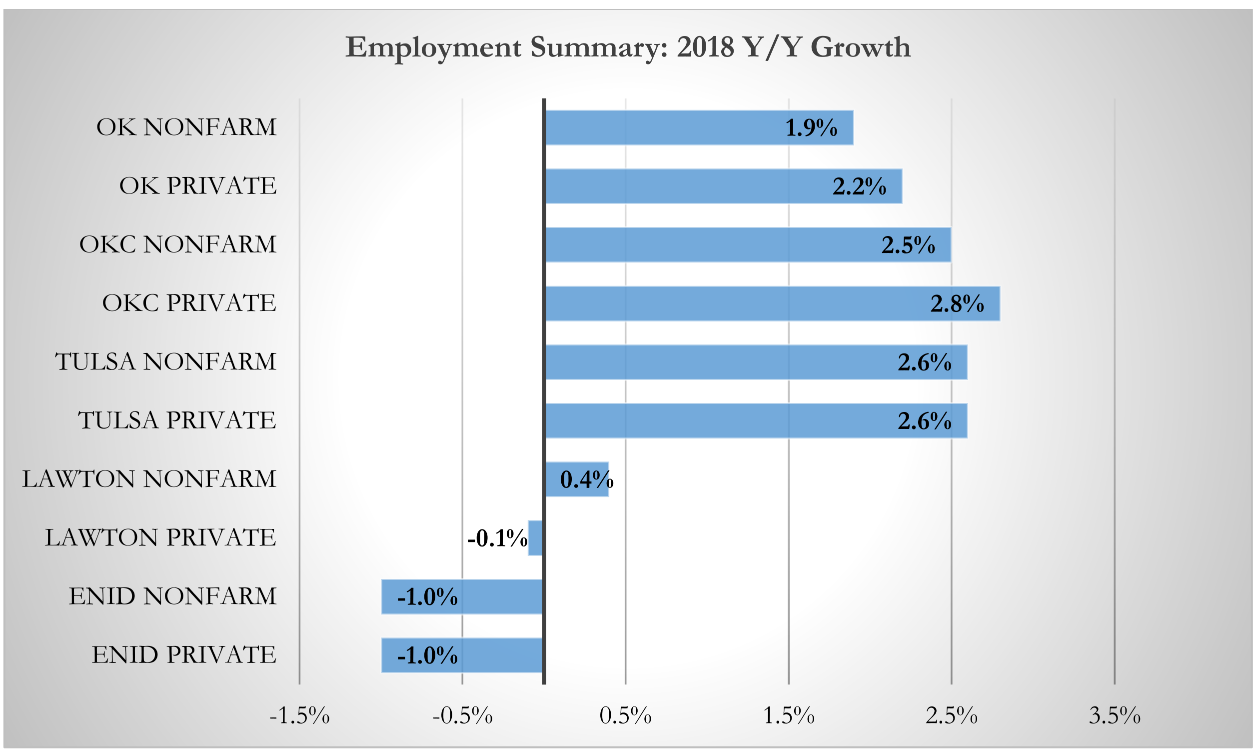


Figure 5: *Employment Summary: 2018 Y/Y Growth*

The U.S. Economic Outlook

U.S. real GDP grew by more than 3% in 2018 for the first time since 2005. The economic strength will be fleeting as conditions are expected to weaken in the second half of 2019. Current expectations anticipate economic growth of 2.4% in 2019 representing expectations that 2019 economic growth is roughly 75% of the growth of 2018. As we enter 2019, this expectation feels increasingly optimistic. The headwinds are lining up while it's difficult to identify potential tailwinds. The best case scenario is not that good news materializes but rather that bad news doesn't. Current expectations are that the slowdown in activity that begins in earnest in the second half of 2019 carries into 2020 with growth of 1.8%.

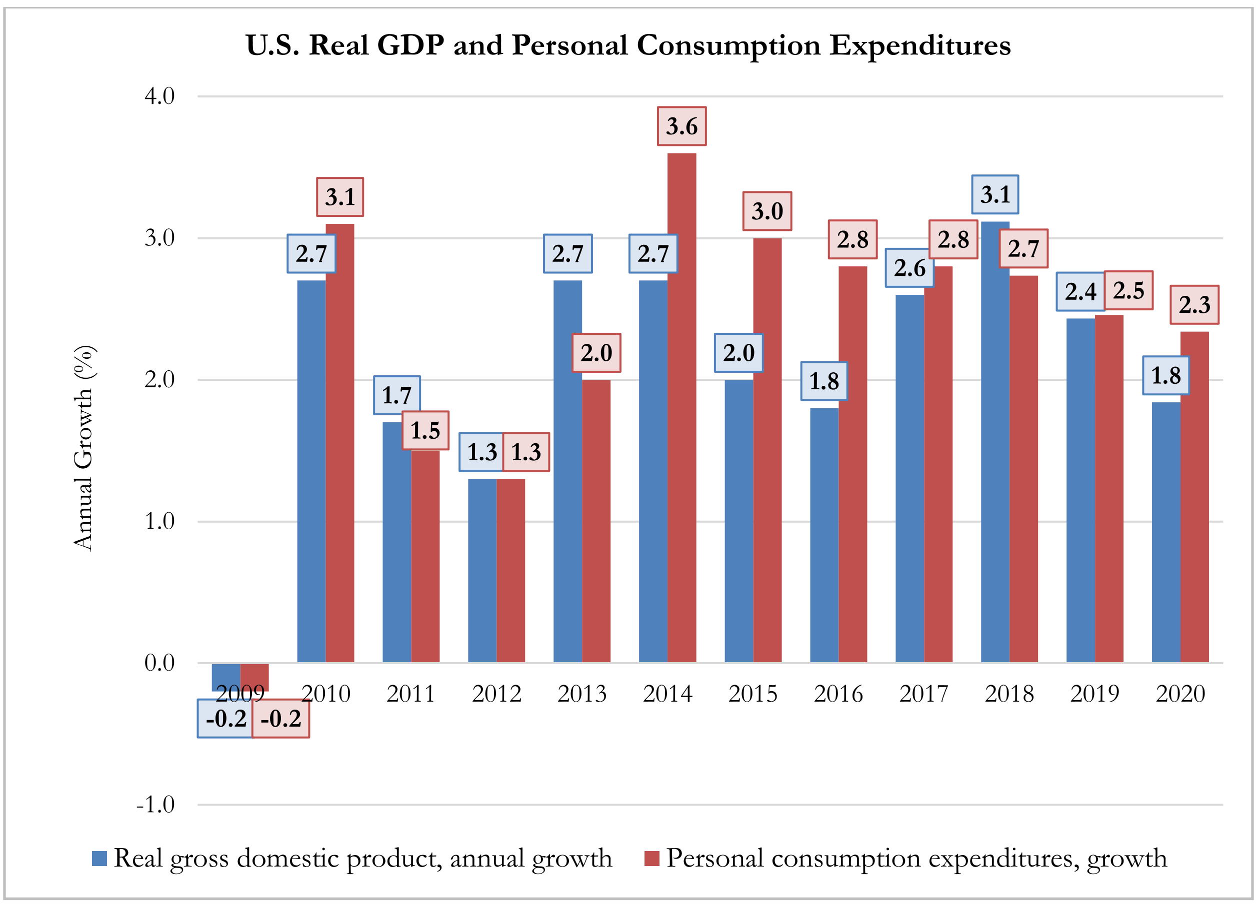


Figure 6: ***U.S. Real GDP and Personal Consumption Expenditures***

The U.S. labor market posted solid job gains throughout 2018. The year ended on a strong note with the economy adding 312,000 jobs in December. For the year, the U.S. economy added an average of 219,000 jobs per month as nonfarm payrolls averaged nearly 150 million workers in 2018. The pace of job creation will slow modestly in 2019 with monthly nonfarm payroll gains averaging 190,000 jobs leading to nonfarm payrolls in 2019 of 151.3 million workers. The pace of job growth will slow again in 2020 averaging monthly nonfarm payroll increases of 140,000 jobs. The unemployment rate will continue to fall slowly through the first half of 2019 before starting a slow climb higher late in the year. Unemployment rates are expected to average 3.8% in 2019 and 4.2% in 2020 after averaging 3.9% in 2018.

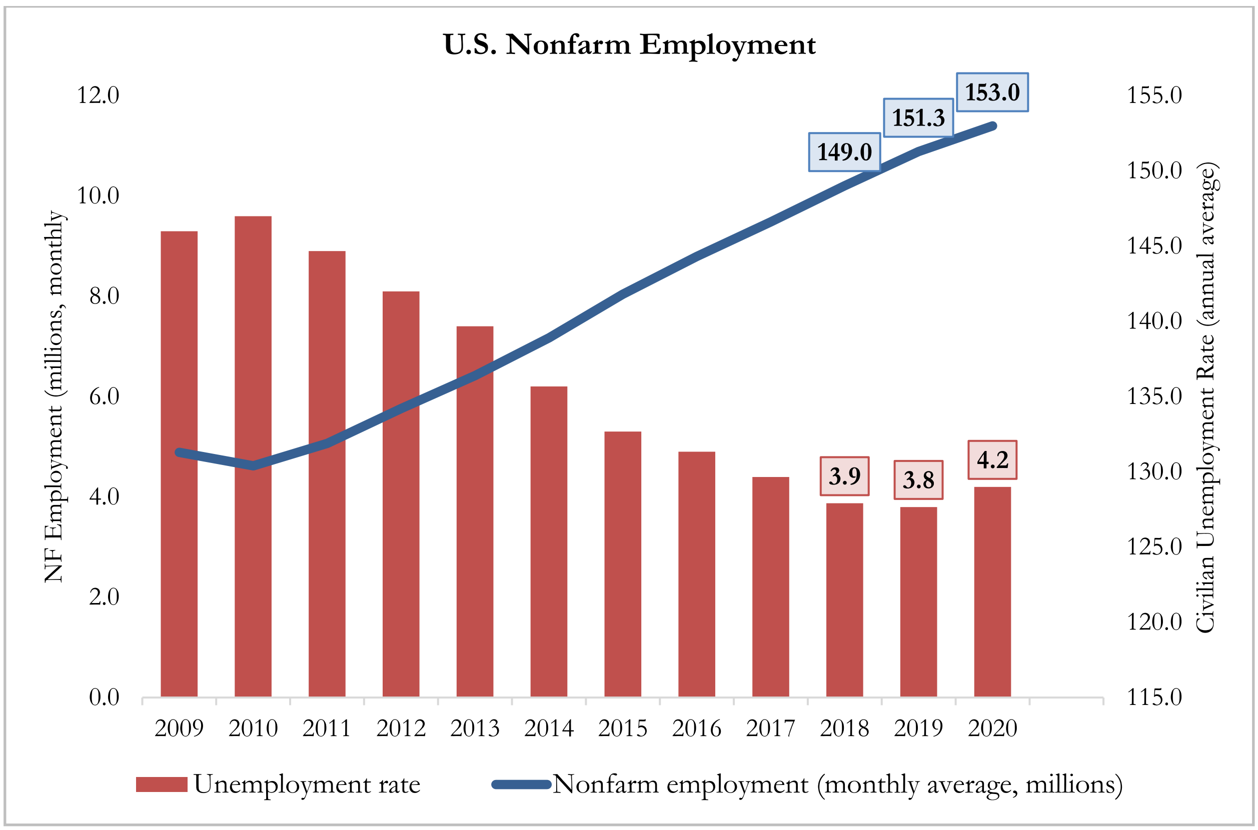


Figure 7: *U.S. Nonfarm Employment*

The current target for short term interest rates (the federal funds rate) is 2.25 to 2.50. The current target range was established with a .25 basis point increase at the final Federal Open Market Committee meeting of the year. At the time this forecast was prepared, markets anticipated another three to four interest rate increases in 2019. Indeed, this is reflected on the graph below with the federal funds rate averaging 2.8% for the year. Recently, however, monetary policy officials have signaled markets that they may not pursue these anticipated rate increases. Some market observers are even suggesting the Fed won't raise interest rates at all in 2019 as they respond to an already slowing economy. Given the importance of monetary policy on economic activity, this degree of uncertainty is concerning. Inflation appears to have reached the Fed's 2% target, but doesn't show signs of moving aggressively higher, giving the Fed the option to hold at current interest rates if they are so inclined. Baseline expectations call for slowly increasing long-term rates as well with 10-year yields trending towards 3.4%.

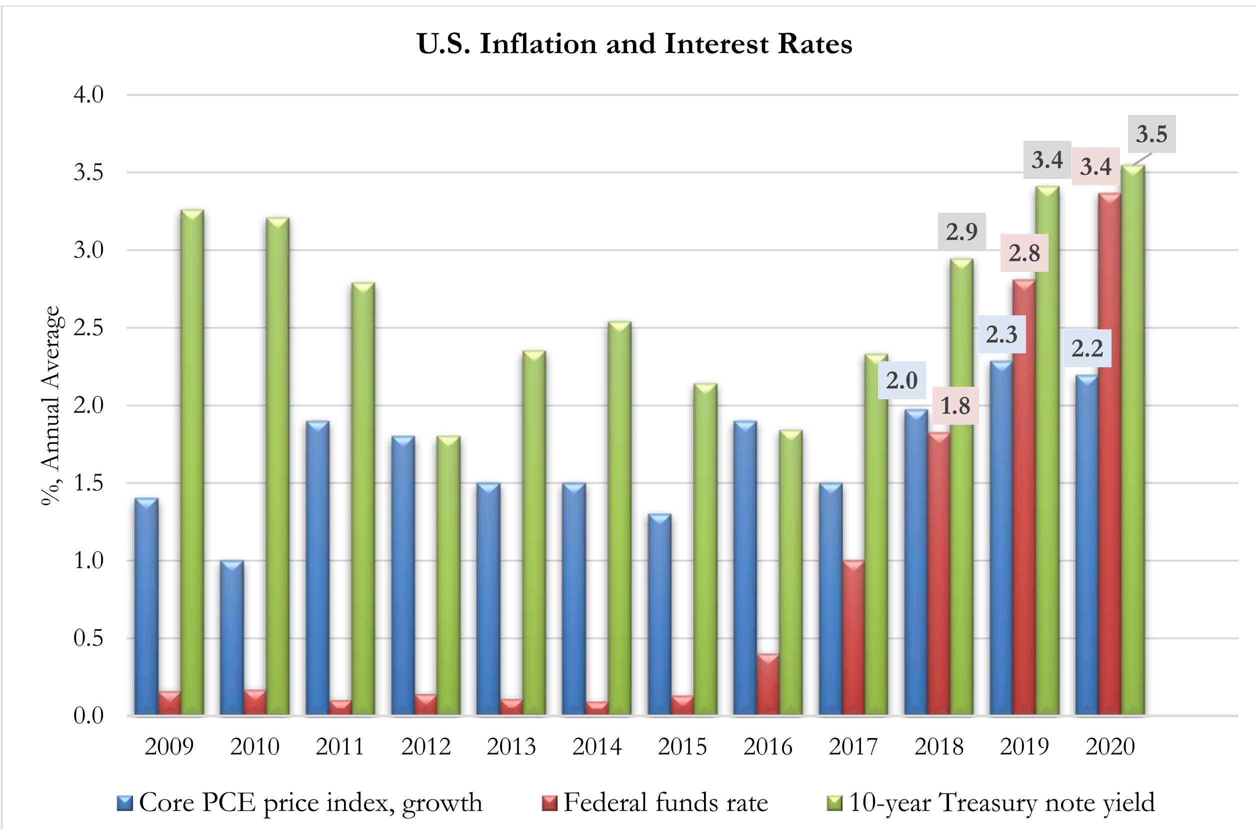


Figure 8: *U.S. Inflation and Interest Rates*

The Oklahoma Economic Outlook

After contracting in 2016 and 2017, the state's economy moved from recession to recovery in 2017. The recovery was modest in 2017 and concentrated in Oklahoma City. Tulsa joined the recovery in 2018 as the state's economy grew at 1.9%. The economic strength will linger into 2019 with expectations that the state's economic performance slowly moderates throughout the year. The baseline forecast anticipates real gross state product growth of 2.9% in 2019 before slowing to 1.1% in 2020. As mentioned previously, the forecast is vulnerable to any unexpected slowdown in national economic activity, a policy misstep, or weakness in the state's oil and natural gas sector.

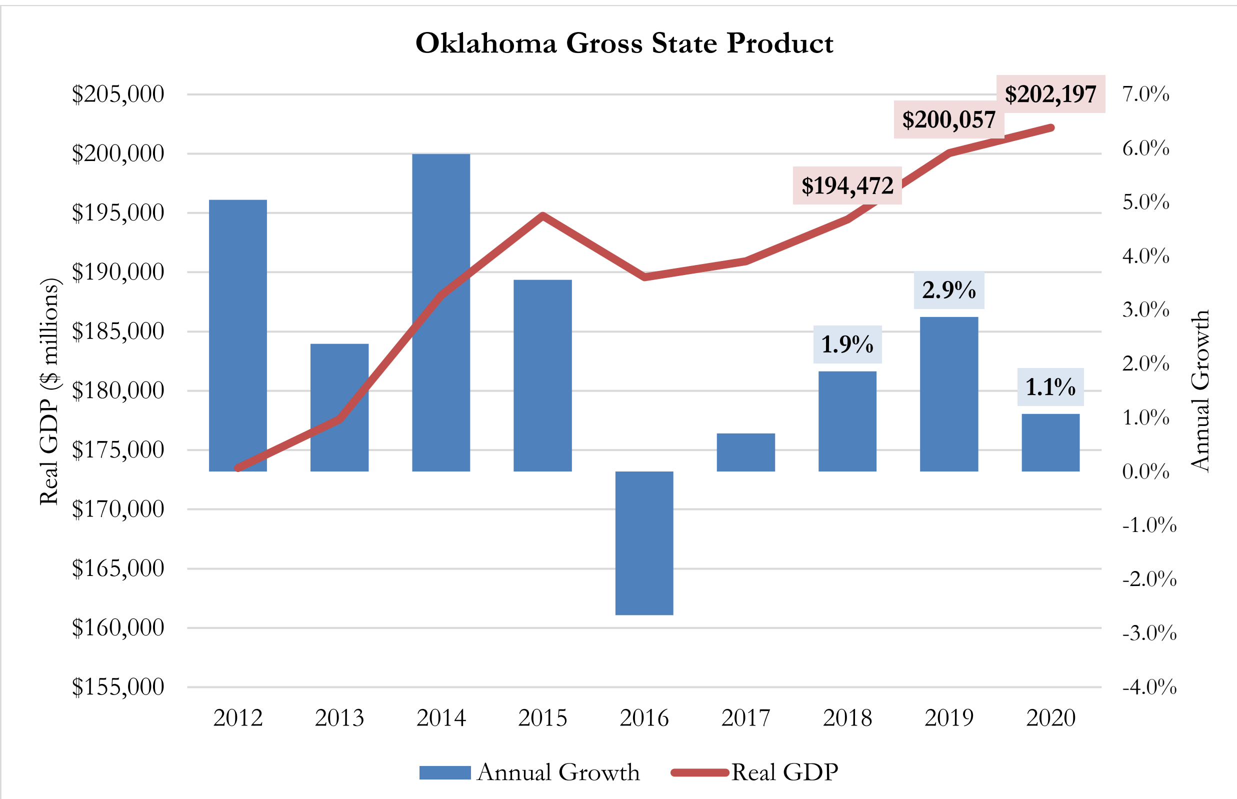


Figure 9: ***Oklahoma Gross State Product***

Oklahoma's population continues a slow march towards four million. The state's population growth rate slowed in 2016 and 2017 as the economy moved into recession. Population growth rates have fallen by half from 0.8% annually in the first half of this decade to 0.4% recently. The population growth rates disguise the important reality that population is growing solidly in urban areas – especially in Oklahoma City and along the I-35 corridor – but shrinking in much of the state's rural regions. This broad pattern of urbanization is expected to continue with the net effect of moderate growth in the state's total population. The forecast calls for 0.4% growth in 2019 followed by 0.3% in 2020. These expectations are consistent with the expectation of modest economic activity. If the state's economic performance remains stronger than anticipated, so too will the pace of population growth.

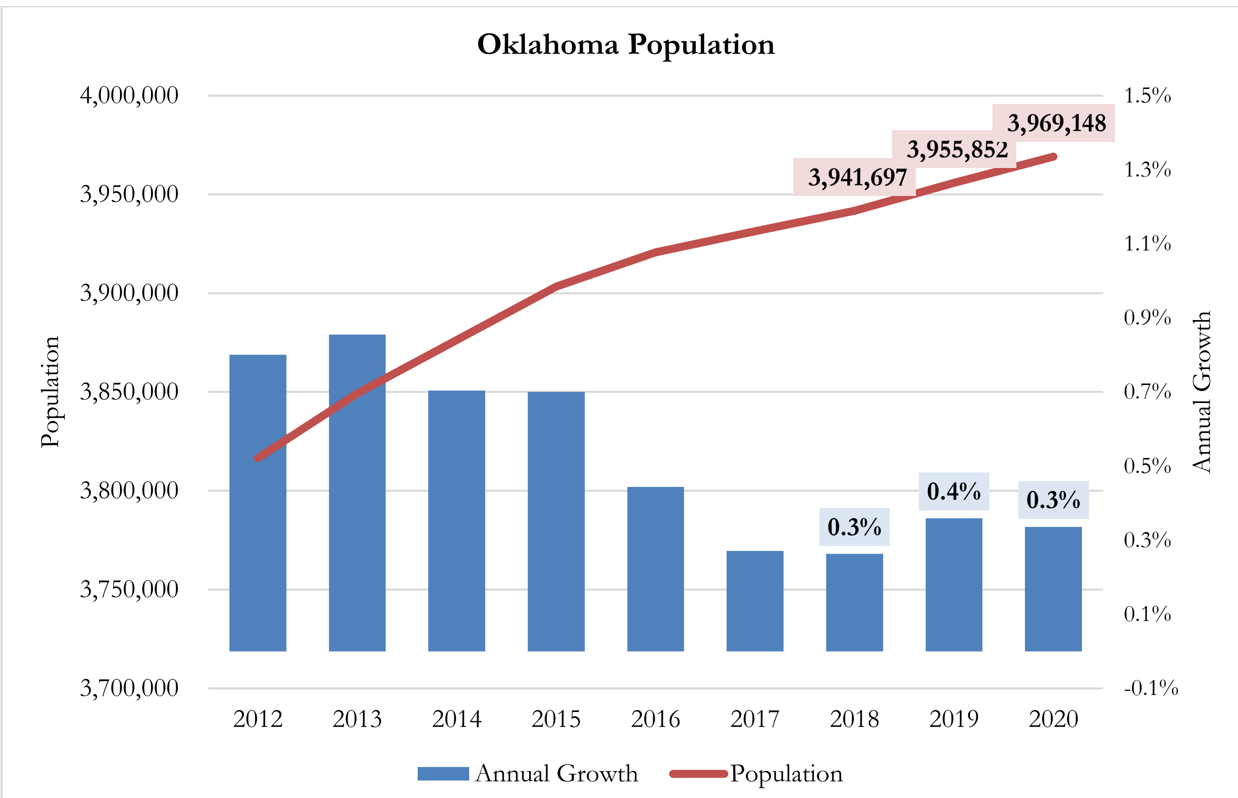


Figure 10: ***Oklahoma Population***

Oklahoma's urban areas have enjoyed robust activity in the residential real estate market. Home prices appreciated at a rate of 3.5% in both the statewide and non-metro areas of the state in 2017. Home prices are expected to post strong gains in 2018 with statewide prices up 3.6% and non-metro prices up 1.4%. The pace of home price gains will slow somewhat in 2019 and 2020 consistent with the broad expectation of a slow deceleration in state economic activity. The forecast anticipates home price growth of 3.4% in 2019 and 2.4% in 2020, with pockets of urban activity experiencing much faster growth.

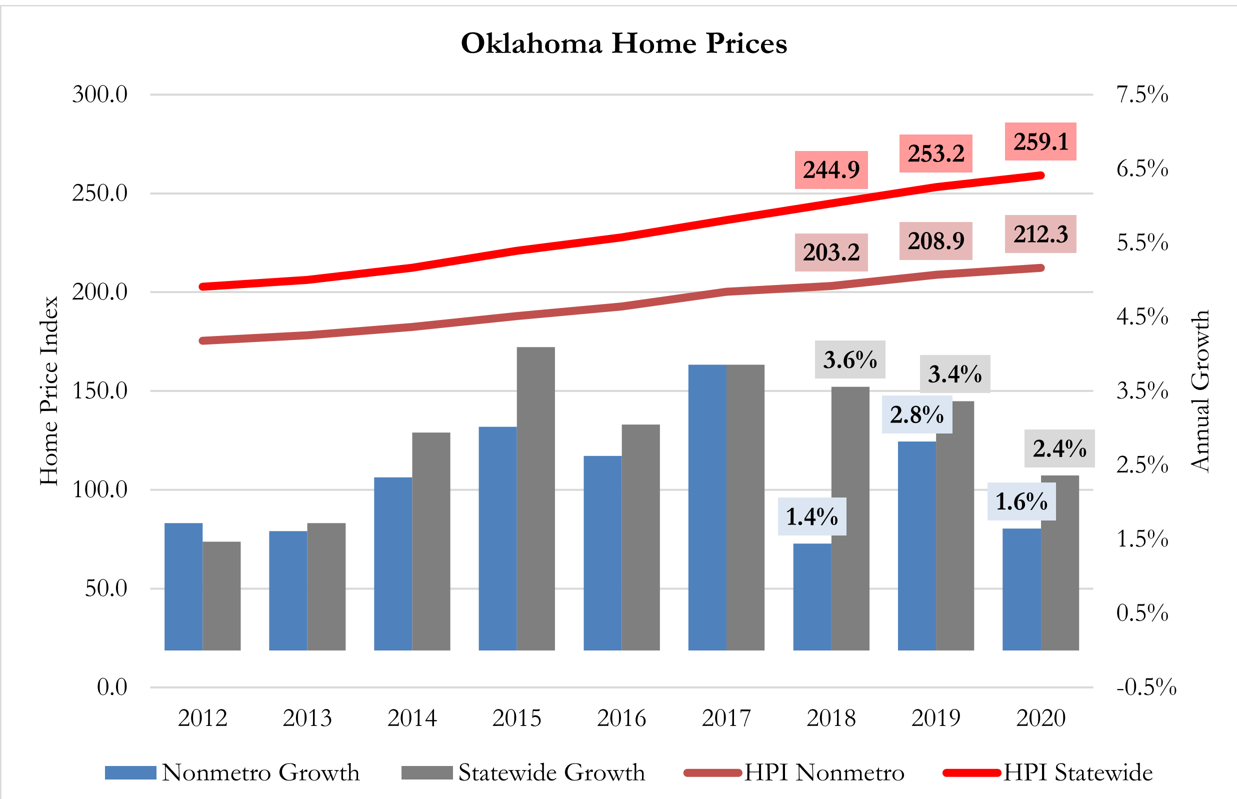


Figure 11: ***Oklahoma Home Prices***

Oklahoma payroll employment posted solid gains in 2018 as nonfarm payrolls expanded by 1.8% while private payrolls expanded by 2.2%. Both nonfarm and private payrolls outperformed expectations established in the previous outlook (1.3% and 1.7% respectively). Much of the difference can be attributed to a stronger-than-expected U.S. economy in 2018 and the unexpected run up in oil prices. Neither of these forces is expected to repeat in 2019. As such, the forecast for nonfarm payroll growth is 1.2% in 2019 and 0.8% in 2020 while private payrolls grow at 1.8% and 0.9% over the same period. As discussed in the introduction, the payroll gains were spread broadly across industries in 2018 with both Tulsa and Oklahoma City exhibiting strength. Job gains are again expected to be spread across industries. Of the urban areas, Tulsa is the most likely to experience the sharpest change in activity in 2019 with a strong first half of the year offset by a weak finish to the year. In contrast, outside influences will have a more muted influence over the Oklahoma City economy.

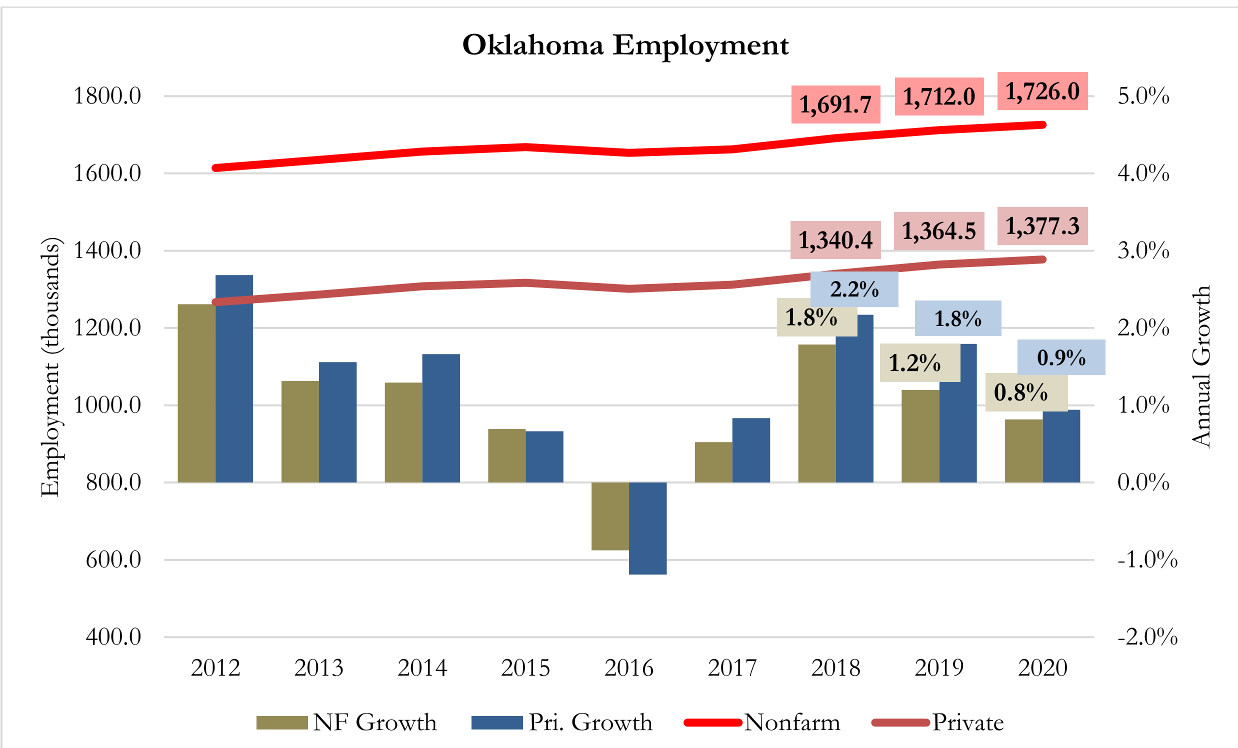


Figure 12: ***Oklahoma Employment***

Oklahoma remains defined by its energy status and enjoys the benefit of the persistent activity in its STACK and SCOOP plays. Crude oil production is at record levels in the state even as the industry employs fewer direct workers than it did in 2014. This reality is consistent with the narrative of previous forecasts that productivity gains combined with a focus on efficient production of core assets would keep employment below 2014 levels. The industry is expected to post solid job gains in 2019, largely as existing plans move forward. As the year progresses, however, the pace of hiring is expected to slow. The baseline forecast is for 7.9% growth in average monthly payrolls in 2019 followed by a -4.6% decrease in 2020. At present, oil and natural gas prices are expected to spend much of 2019 hovering around levels just sufficient to support activity ($50 oil and $3 natural gas) but below a price level that would support a repeat of the mini-boom experience of 2018.

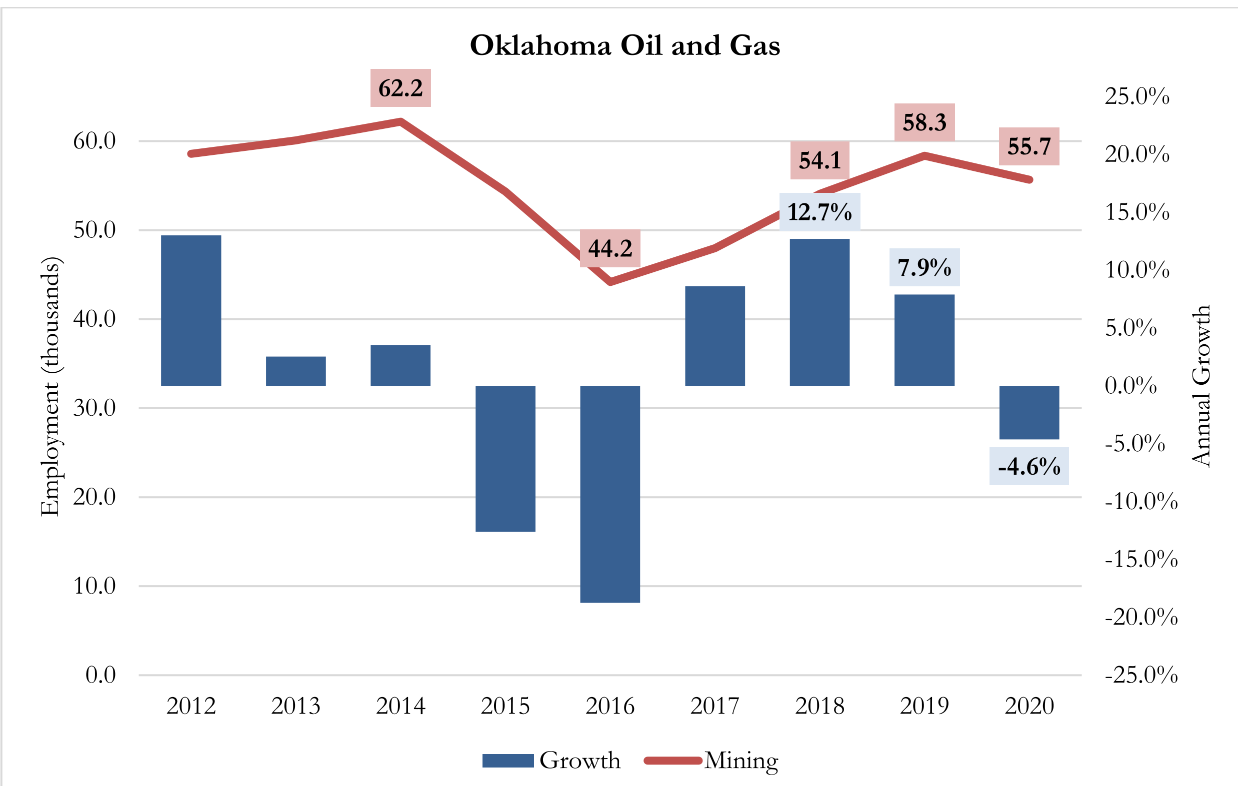


Figure 13: ***Oklahoma Oil and Gas***

Oklahoma's base of professional and business services employment continues to grow. The industry includes scientific, technical, administrative, and management services and can be a broad indicator of the strength of the local economy. Current estimates suggest that the sector will far outperform expectations in 2018 with 2.8% realized growth against the 0.5% growth presented in the previous outlook. The sector is expected to remain a source of strength in 2019 with growth of 2.0% followed by growth of 1.2% in 2020. Within the industry, much of the strength is drawn from the management (headquarter) sector and the administrative support sector.

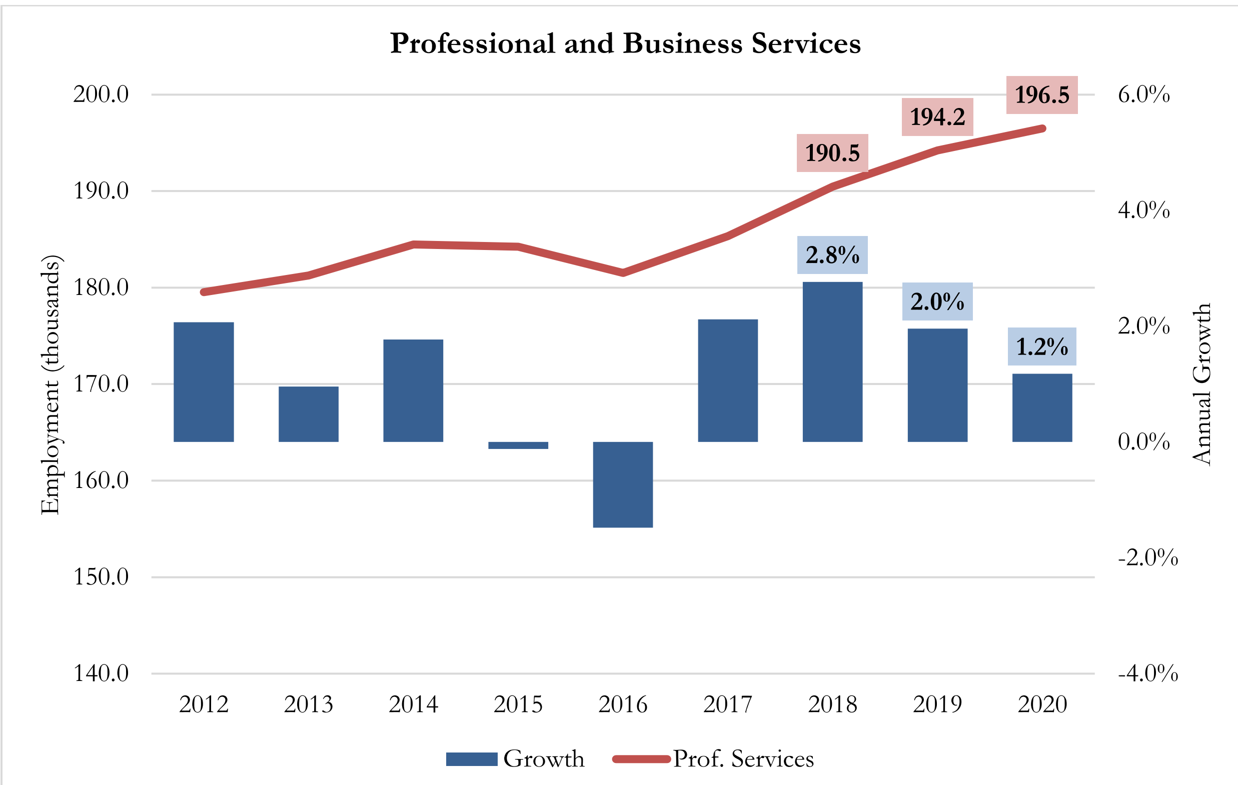


Figure 14: ***Professional and Business Services***

The full production, income, and employment outlook by industry is available in the appendix with a final summary of the Oklahoma labor market presented below. The state's unemployment rate is remarkably low and at level last seen in 2000 just prior to a recession and again in 2008 just prior to a recession. It is difficult to imagine much room for unemployment rates to fall lower. Instead, unemployment rates are expected to hold at current levels for the first months of 2019 before slowly increasing. The current forecast of an average of 3.2% for the year seems optimistic and relies on early strength carrying well into the middle of the year. At the same time, the strong pace of growth in average weekly earnings is expected to moderate. After posting sharp gains in 2017 and 2018, earnings growth will moderate in 2019 and 2020 with the current forecast anticipating average weekly earnings of $855.71 in 2020.

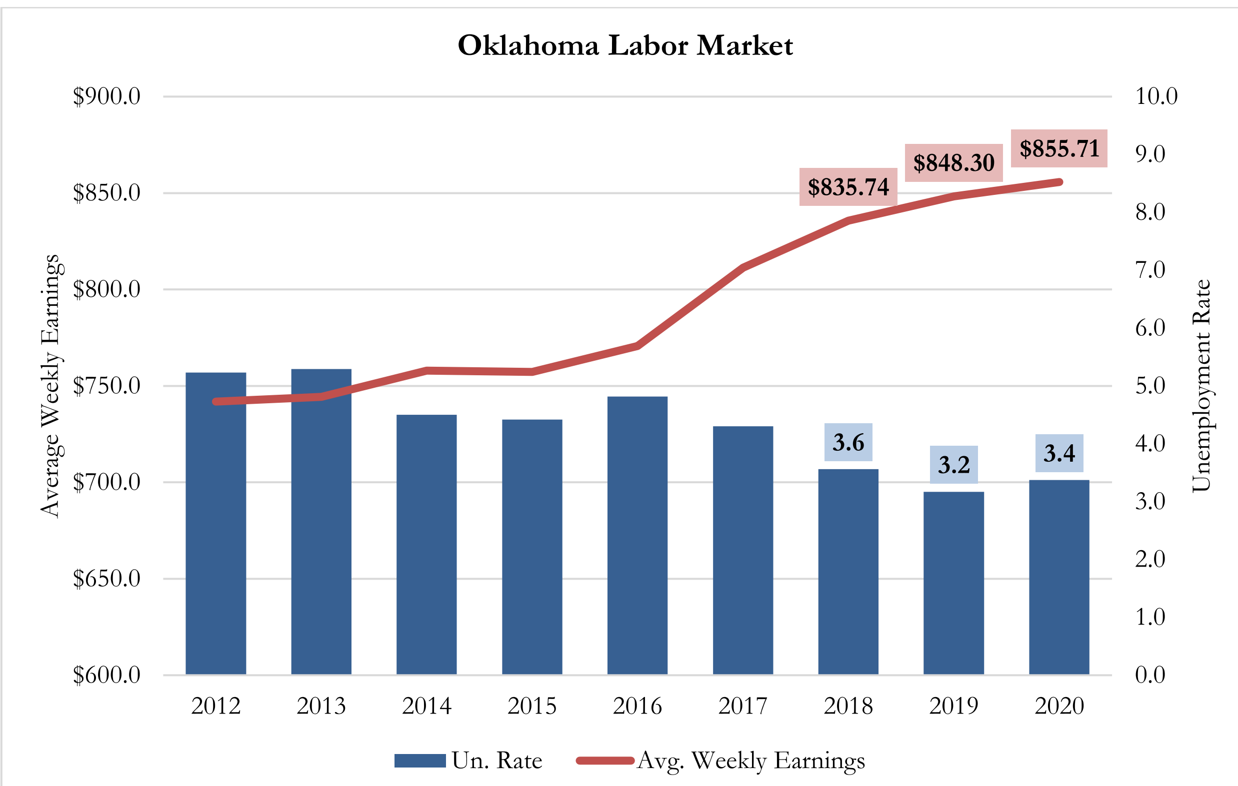


Figure 15: *Oklahoma Labor Market*

The Oklahoma City Economic Outlook

Oklahoma City continues to emerge as the center of economic activity in the state. The city's location along the fast-growing I-35 corridor provides a base of support that is complemented by public and private investment and industry concentrations in oil and gas and aerospace. The Oklahoma City MSA economy has grown from $59 billion in 2012 to $72 billion in 2020, representing an average annual growth rate of 2.7%. A spike in economic activity in 2015 coincided with the spike in oil and natural gas activity followed by the contraction in 2016. Absent any strong force for growth and assuming recessionary weakness is avoided, the metro economy is expected to grow modestly in 2019 and 2020 at 2.0% and 2.2% respectively.

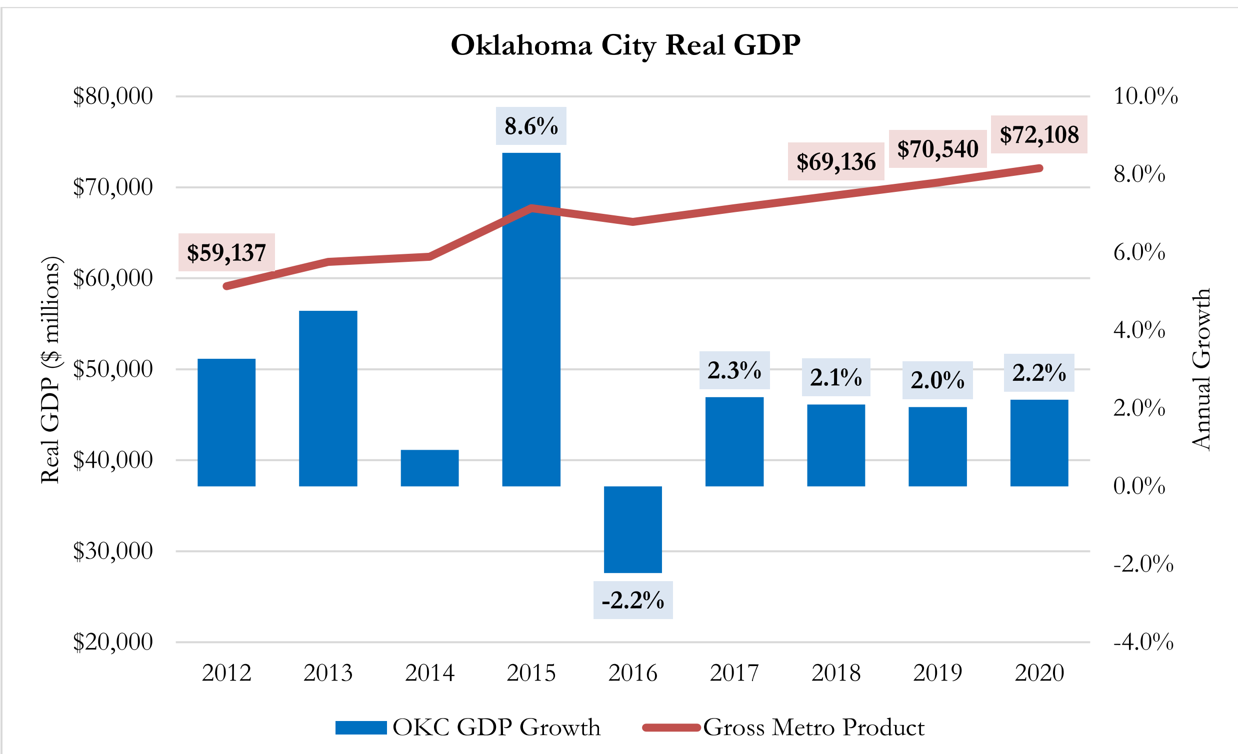


Figure 16: *Oklahoma City Real GDP*

The Oklahoma City MSA population continues to grow at impressive rates. During periods of robust economic strength, population growth accelerates. For example, population growth was estimated at 1.7% in 2013. During periods of economic weakness, growth rates slow as in 2017 with population growth of only 0.8%. The difference in growth rates is significant over time. If the metro economy sustained a population growth rate of 1.5% over the long run, the area's population would double every 48 years. The metro population is expected to grow at 1.4% in 2019 and 1.5% in 2020 with both growth rates remaining consistent with recent activity. Any surprise economic weakness or strength will move the expectations accordingly. It is widely expected, however, that the forces propelling population growth in the region will continue for decades to come as Oklahoma City's persistent transformation progresses.

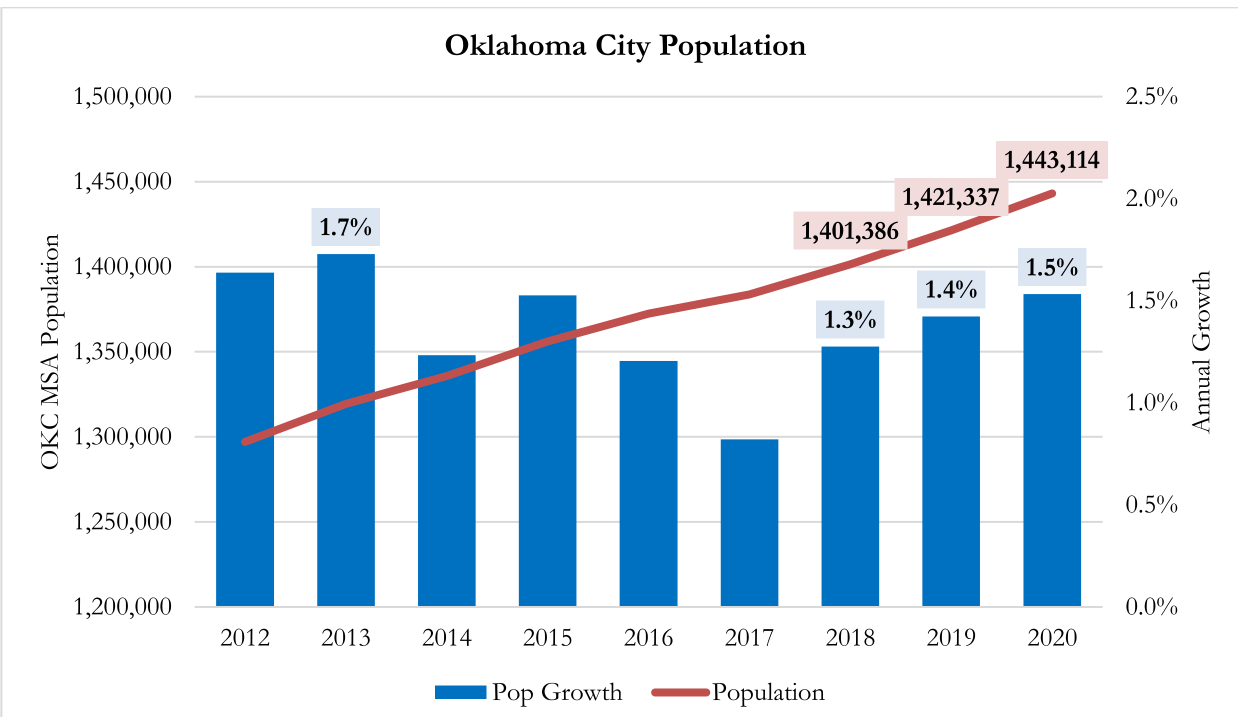


Figure 17: ***Oklahoma City Population***

After contracting in 2016 with the broad economic weakness, Oklahoma City MSA per capita income and earnings per job recovered in 2017. The bounce back carried into 2018 with expectation of modest sustained growth over the forecast horizon. Per capita income is predicted to increase from $42,413 in 2012 to $51,544 in 2020 while earnings per job increases from $49,719 to $58,696 over the same period. The pattern in both forecasts is consistent with the overarching expectations of slowing growth materializing in the spring/summer of 2019 and carrying into 2020.

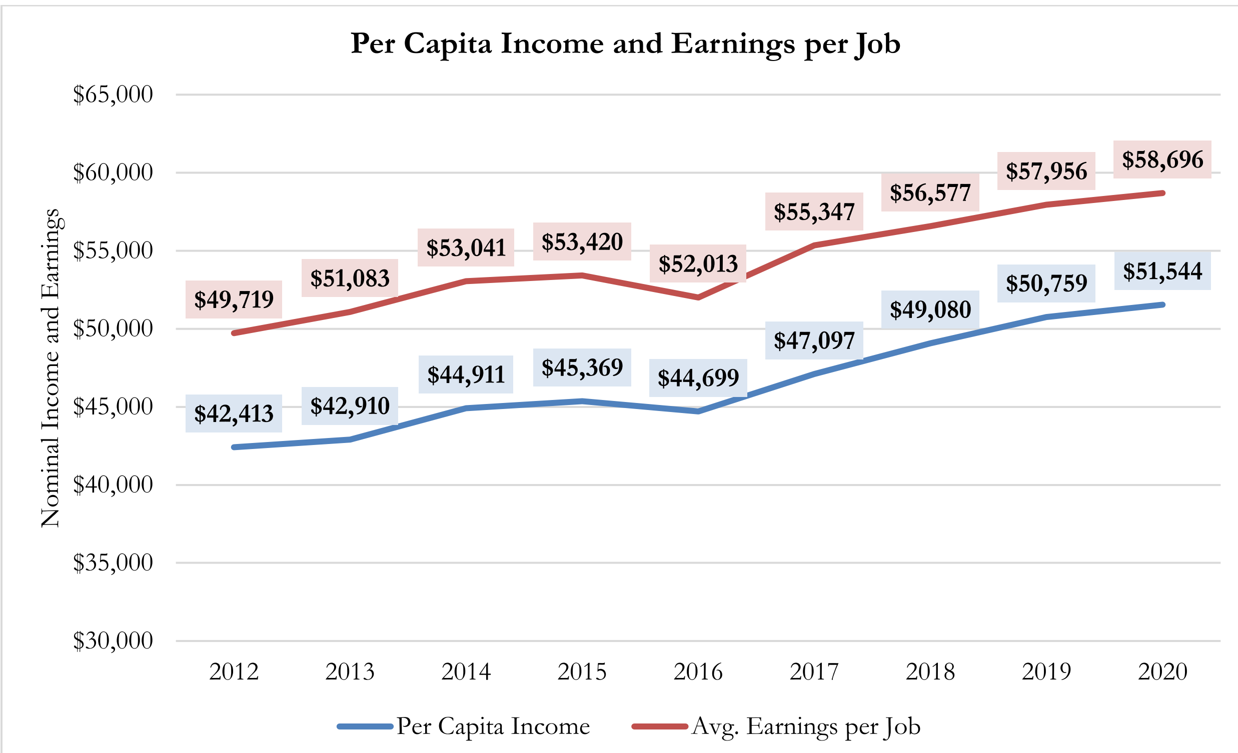


Figure 18: ***Per Capita Income and Earnings per Job***

Average monthly nonfarm and private payrolls fell in 2016 with the collapse of the oil and gas industry and the weak U.S. economy. The recovery that began modestly in 2017 with payroll growth of 0.8% and 1.0% accelerated considerably in 2018 as average monthly nonfarm payrolls grew by 2.5% and private payrolls by 2.9%. The strength in 2018 was a reflection of much-stronger-than-expected U.S. economic activity and unexpected gains in oil prices. It is unlikely that 2019 enjoys the same benefits. Rather, strength from 2018 will carry through the first half of the year with a general slowdown in activity beginning in the second half of the calendar year with the slowdown becoming more pronounced as the year progresses. The result is a forecast of 2.1% nonfarm growth and 2.4% private payrolls growth in 2019 followed by growth of 1.4% and 1.5% in 2020.

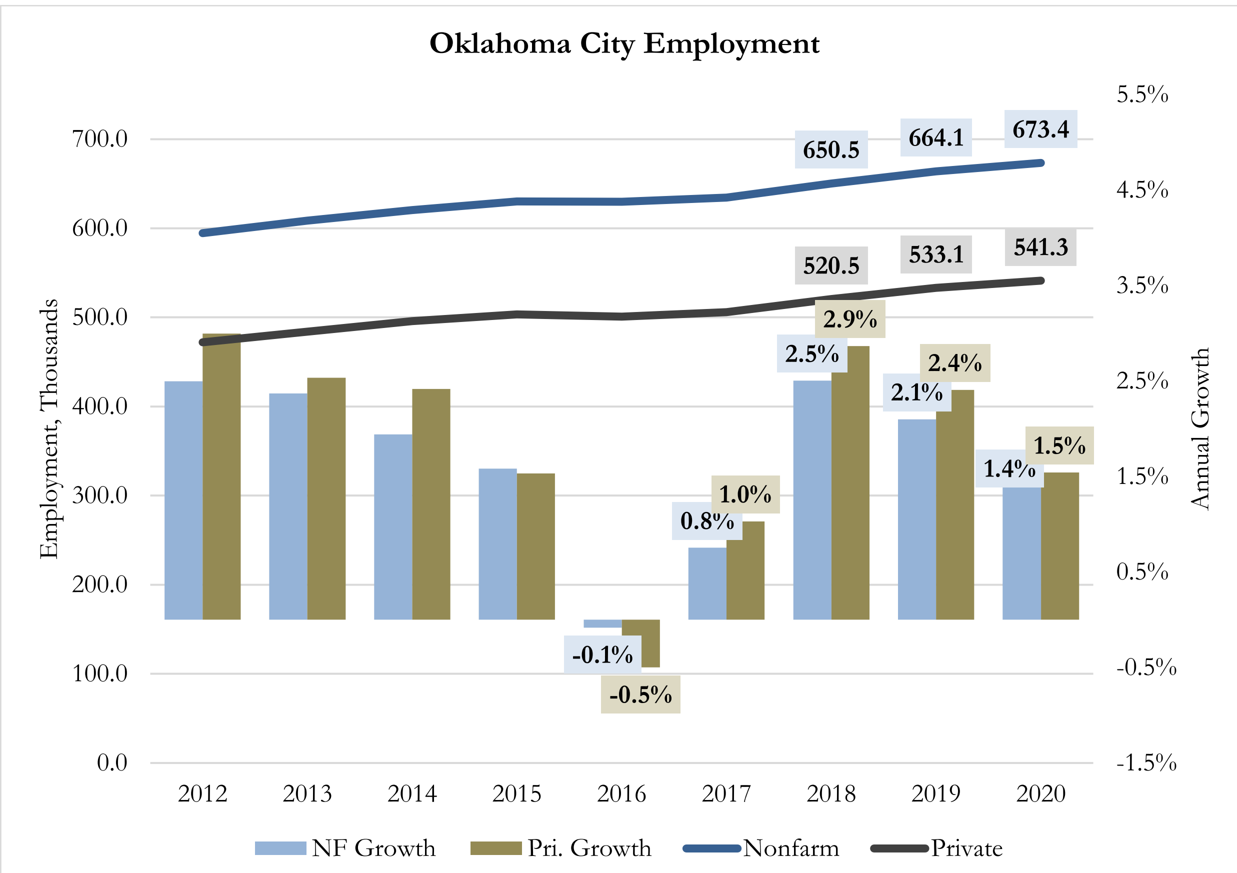


Figure 19: ***Oklahoma City Employment***

Forecasting oil and gas employment is notoriously difficult, but the pattern reflected in the data is instructive. Statewide, employment in the sector is not expected to return to the peak employment established in 2014 (see the previous section of this report). That is not the case, however, for Oklahoma City. Energy sector employment in 2018 approached the monthly average peak set in 2014 and is expected to exceed 2014 levels in 2019. Consistent with the broad pattern discussed previously, strength carries into 2019 with employment levels completing a slow climb through the first months of the year before trailing off in the latter part of the year. By the end of 2019 and into 2020, it is expected that average monthly payrolls contract modestly. It is also worth noting that direct industry employment is only about 23,000 jobs (out of 530,000 total private sector jobs). While small in its direct share of employment, the strength of this industry is still broadly indicative of general economic and fiscal strength in the MSA.

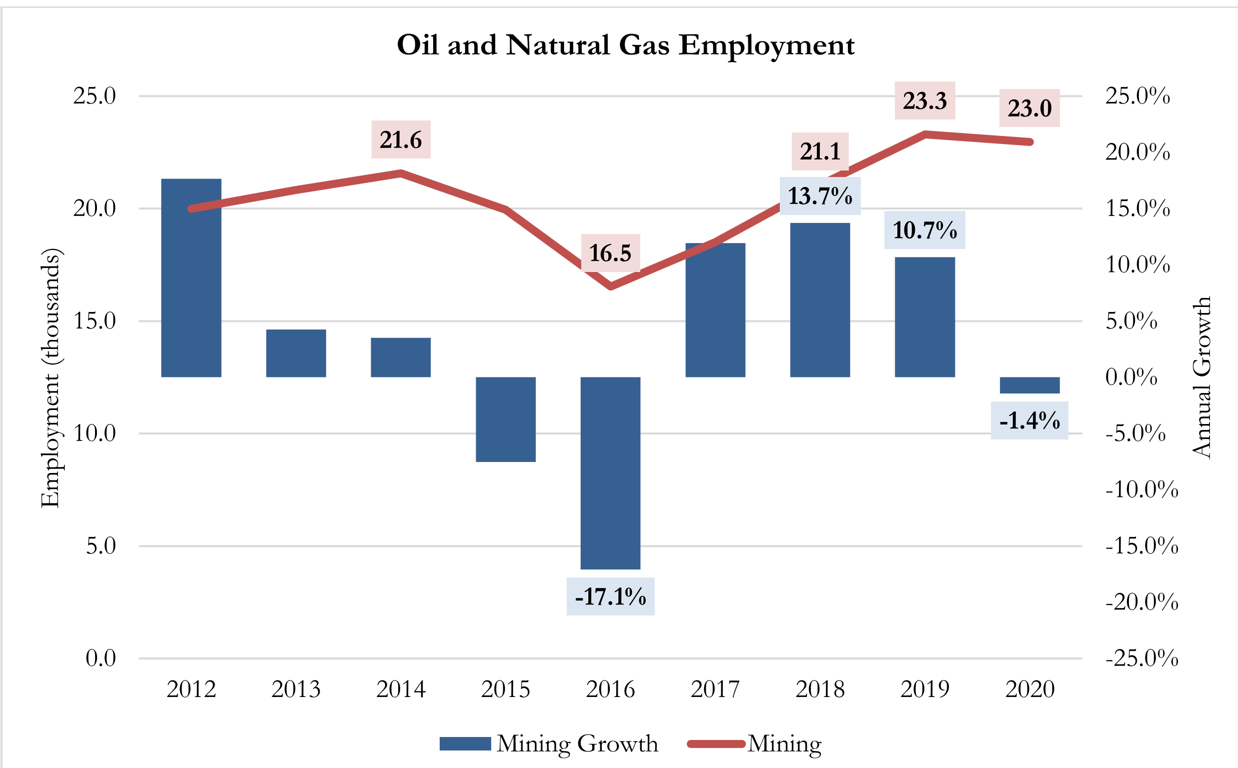


Figure 20: ***Oil and Natural Gas Employment***

Following three years of contraction from 2015 through 2017, the manufacturing industry posted a modest expansion and recovery in 2018. Average monthly payrolls were up 3.3% in 2018 and falling by -0.2%, -7.7%, and -3.4% in the three previous years. Some of the manufacturing recovery is driven by the active drilling and production taking place in the energy industry. This particular source of strength will be less acute in 2019 as the manufacturing sector works to hold employment at current levels. If successful, average payrolls will be up 2.9% in 2019 from 2018 levels. As the economic slowdown continues, manufacturing jobs are expected to grow at only 0.2% in 2020.

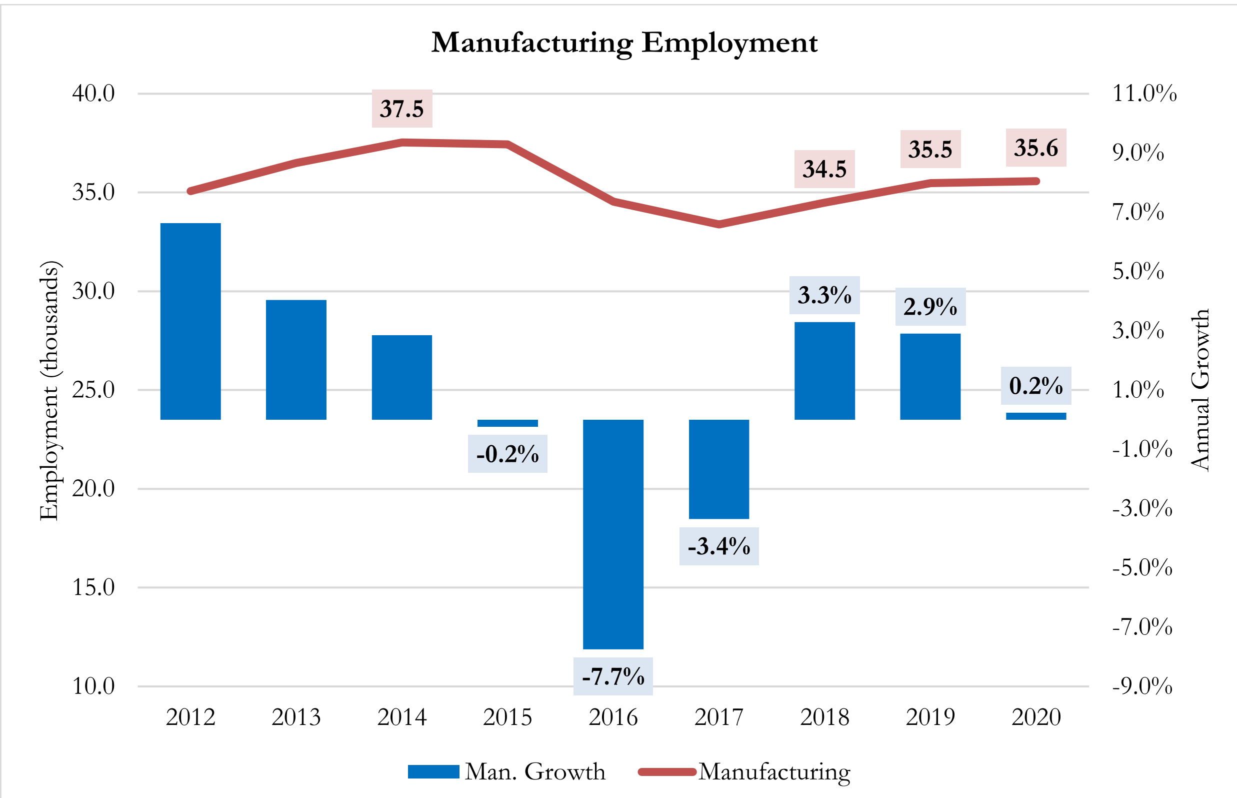


Figure 21: ***Manufacturing Employment***

The education and health sector is responsive to population and income changes. The population changes most important to the sector are its size and age distribution. As the Oklahoma City MSA population continues to grow at average annual rates of 1.5% or greater, the education and health sector will grow accordingly. The sector tends to grow in ebbs and flows with both economic activity and periods of large discrete industry investment. The industry experienced an ebb in activity in 2016 and 2017 with payroll growth of only 0.7% in successive years. The pace of industry expansion picked up in 2018 with payroll employment growth of 1.8%. The industry is expected to continue adding jobs in 2019 and 2020 with forecasted employment growth of 2.2% and 2.1% in 2018 and 2019 respectively.

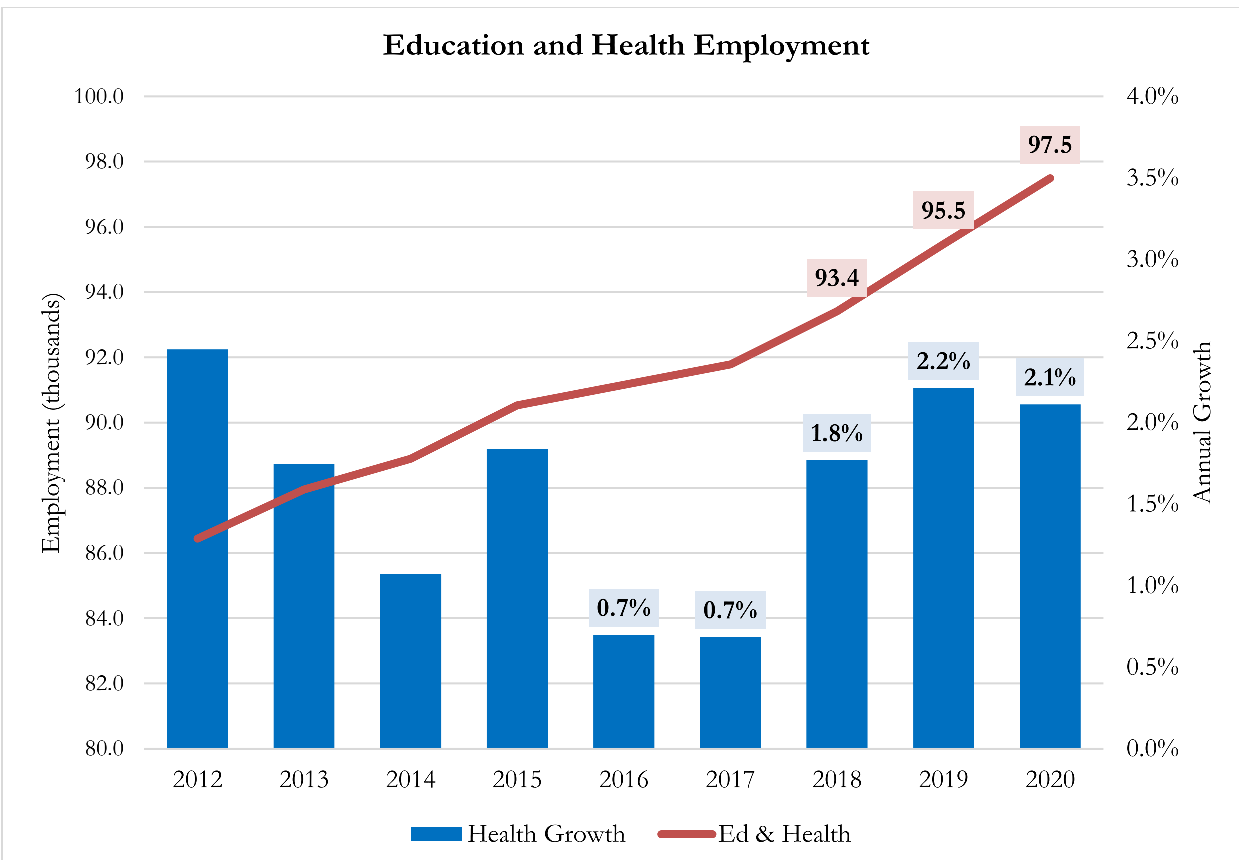


Figure 22: ***Education and Health Employment***

The MSA's leisure services sector continues to grow aggressively as the population grows, moves towards density, and enjoys rising incomes. All three factors encourage ongoing growth in the food services, accommodations, and arts sectors of the industry. Employment in the industry surged in 2018 with payroll employment growth of 5.0% to more than 75,000 jobs. Gains are expected to carry into 2019 with growth of 5.3% followed by 4.0% in 2020.

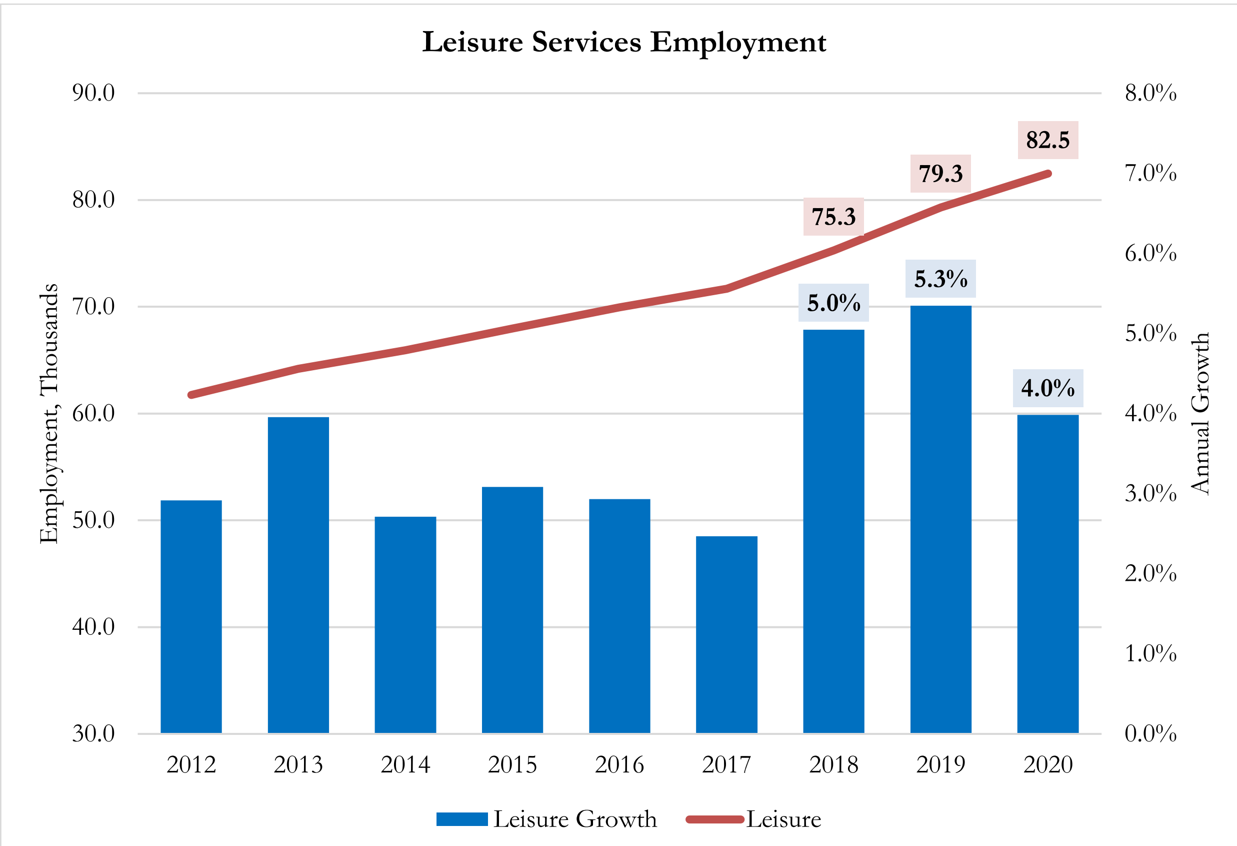


Figure 23: *Leisure Services Employment*

The Oklahoma City Fiscal Outlook

In many ways, the discussion surrounding the fiscal outlook for FY 2020 is reminiscent of the FY 2018 outlook. The budget workshop convened in early February of 2017 as a disappointing fiscal year moved into the third quarter. Ultimately, FY 2017 growth would be -3.1% from the previous year. The most recent sales tax checks (January 2017 and February 2017) were down -3.5% and -5.8% from the previous year, and there appeared to be little reason for optimism. However, unmistakable trends were developing in the data and it was becoming clear that regional economic and fiscal data would turn positive (as measured on a year-over-year basis) late that spring as FY 2017 closed and FY 2018 opened. Indeed, after posting sales tax declines in 18 of the previous 19 months, the city's sales tax collections posted year-over-year growth in May 2017 and has enjoyed uninterrupted growth since. At the February 2017 budget workshop, the baseline FY 2018 forecast was set in the range of 3.8% to 4.2% with a comment that it might be a year to "play the over." When FY 2018 ended, sales tax growth was up 6.0%. The table below summarizes recent budget workshop presentations.

Budget Forecast, Performance, and Uncertainty		
Budget Workshop	FY 2018 Forecast	FY 2018 Actual
Feb-17	3.8% to 4.2%	6.00%
Budget Workshop	FY 2019 Forecast	FY 2019 Actual
Feb-18	3.0% to 3.3%	4.1% to 4.5%
Budget Workshop	FY 2020 Forecast	FY 2020 Actual
Feb-19	-1.3% to 3.1%	?

At the February 2018 budget workshop, two models were presented based on long run relationships between sales tax and (1) regional employment and (2) regional earnings. Both models performed well. The models based on *known* earnings made slightly better predictions, but generating an earnings outlook comes with less certainty than generating an employment outlook. Ultimately, the models established a baseline FY 2019 range of 3.0% to 3.3%. Recall that the fiscal outlook models presented in the budget workshops begin with a fully-determined economic forecast. As such, the fiscal forecast is tied to and predicated on a specific economic expectation coming to pass. In FY 2019, the economy outperformed expectations, but the estimated relationships between economic and fiscal realities proved true. In other words, the fiscal reality outperformed expectations proportionally with FY 2019 actual growth now estimated to be in the range of 4.1% to 4.5%.

Establishing a range of expectations for FY 2020 is nearly impossible given the range of possible expectations for national and local economic performance over the next 18 months. The "range" presented in the table above (-1.3% to 3.1%) is better thought of as a series of expectations based on very different economic realities. The table below provides the monthly detail forecast for the remainder of FY 2019 and the fiscal year summary for FY 2020 under three alternative economic states.

Monthly Detail Growth Rates			
Month	Baseline: Slow U.S. Growth/Modest Oil Price	Baseline: Slow U.S. Growth / Low Oil Price	Baseline: Mild Recession
Jul-18	8.0%	8.0%	8.0%
Aug-18	4.5%	4.5%	4.5%
Sep-18	5.2%	5.2%	5.2%
Oct-18	3.0%	3.0%	3.0%
Nov-18	1.1%	1.1%	1.1%
Dec-18	4.6%	4.6%	4.6%
Jan-19	4.7%	4.7%	4.7%
Feb-19	***6.1%***	***6.0%***	***5.9%***
Mar-19	***3.7%***	***3.5%***	***3.7%***
Apr-19	***8.4%***	***7.9%***	***8.1%***
May-19	***1.7%***	***1.0%***	***-0.2%***
Jun-19	***3.1%***	***2.2%***	***0.5%***
Fiscal Year 2019	4.5%	4.3%	4.1%
Fiscal Year 2020	3.1%	1.8%	-1.3%

The first baseline model assumes slow U.S. growth, but no recession, combined with oil prices that while lower than 2018 levels, largely hold above critical levels needed to support ongoing activity. In this economic environment, there is a natural slowing in the growth of employment, earnings, and income. The underlying relationships between economic and fiscal activity hold, with a reduction in economic growth rate causes a nearly proportional reduction in the fiscal growth rate. Under this scenario, baseline expectations would anticipate FY 2020 sales tax growth of 3.1%.

The second baseline scenario assumes slow U.S. growth, but no recession, combined with oil prices that struggle to hold above the critical levels needed to support ongoing activity. As oil and natural gas prices spend much of the year just at or below critical levels with no confidence of prices moving higher, local activity slows. Under this scenario, a reasonable baseline expectation would be sales tax growth of 1.8%.

The third baseline scenario assumes a mild U.S. recession develops in the second half of the fiscal year. In this scenario, oil and gas prices still hold at or above critical levels with activity in the energy providing a moderating influence to the recessionary experience. Under this scenario, a reasonable baseline expectation would be sales tax contraction of -1.3%. A worst-case scenario involves a mild U.S. recession that pulls oil prices well below levels necessary to support ongoing activity. In this case, we would expect a more significant sales tax contraction.

Given the set of information currently available, it is reasonable to expect Oklahoma City's economic and fiscal performance to moderate somewhat from 2018. It is likely that the economic moderation is clearly identifiable in the economic data by early summer. It is the extent of the moderation and the impact to sales tax collections that is unknown. Planning for FY 2020 should recognize that the downside risks far outweigh upside risks with significant downside outcomes not easily ruled out.

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**	**2020**
Real gross domestic product, annual growth	-0.2	2.7	1.7	1.3	2.7	2.7	2.0	1.8	2.6	3.1	2.4	1.8
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	2.8	2.7	2.5	2.3
Nonresidential fixed investment, growth	-12.2	8.1	9.0	5.2	4.8	6.1	0.3	0.7	6.3	6.9	4.3	3.0
Residential investment, growth	-10.8	-5.2	6.0	15.7	6.8	6.3	10.3	2.5	2.6	-3.1	3.6	3.8
Change in private inventories ($ billions, 2009)	-147.6	58.2	37.6	54.7	78.7	67.8	100.5	33.4	15.2	35.9	84.4	75.1
Government consumption and gross investment	2.3	-1.1	-3.0	-2.2	-2.8	0.5	1.6	0.4	0.7	3.3	5.4	4.2
Employment and Industrial Activity												
Private housing starts (thousands)	554	586	612	784	928	1001	1107	1177	1208	1263	1318	1423
Light vehicle sales (millions)	10.4	11.6	12.7	14.4	15.5	16.5	17.4	17.5	17.2	17	17	17
Industrial production, growth	-5.7	6.0	2.8	2.3	2.2	3.4	-2.7	-0.1	3.0	3	2	2
Manufacturing capacity utilization	65.5	70.7	73.7	74.8	74.7	75.4	75.5	75.1	74.8	76	76	76
Nonfarm employment (monthly average, millions)	131.3	130.4	131.9	134.2	136.4	138.9	141.8	144.3	146.6	149	151	153
Unemployment rate	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	4	4	4
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	2.1	2.5	2.5	1.7
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	2.2	2.5	2.4
Personal consumption expenditures price index, growth	1.2	1.3	2.7	1.8	1.2	1.2	0.4	1.6	1.7	2.1	2.3	1.9
Core PCE price index, growth	1.4	1.0	1.9	1.8	1.5	1.5	1.3	1.9	1.5	2.0	2.3	2.2
Compensation per hour, growth	1.2	1.3	0.5	5.7	-0.1	3.1	3.1	-0.3	2.9	2.7	3.2	3.5
Output per hour, growth	5.4	1.8	0.0	0.1	1.6	0.3	0.7	0.8	1.2	1.5	1.2	1.2
Price of WTI crude oil ($,barrel)	61.69	79.43	95.08	94.20	94.20	93.26	48.74	43.22	50.89	67.9	72.5	67.9
Price of Brent crude oil ($/barrel)	61.49	79.51	111.26	111.65	99.02	99.02	52.35	43.55	54.25	74.4	82.7	73.9
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	1.82	2.81	3.37
10-year Treasury note yield	3.26	3.21	2.79	1.80	2.35	2.54	2.14	1.84	2.33	2.94	3.41	3.55
Disposable personal income ($ billions, 2009)	-0.7	2.6	1.7	5.1	-2.8	4.9	3.2	0.2	1.8	2.6	2.6	2.8
Personal savings rate (%)	6.1	5.6	6.1	7.6	5.0	5.7	6.1	4.8	3.4	6.6	5.9	6.3
Unified federal surplus, fiscal year	-1415.7	-1294.2	-1296.8	-1089.2	-680.2	-483.6	-439.1	-585.6	-665.8	-779.0	-905.6	-1012.7

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

Oklahoma Employment Outlook									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Nonfarm	1614.1	1635.3	1656.4	1667.9	1653.3	1662.0	1691.7	1712.0	1726.0
Annual Growth	2.3%	1.3%	1.3%	0.7%	-0.9%	0.5%	1.8%	1.2%	0.8%
Private	1267.0	1286.7	1308.1	1316.8	1301.1	1312.0	1340.4	1364.5	1377.3
Annual Growth	2.7%	1.6%	1.7%	0.7%	-1.2%	0.8%	2.2%	1.8%	0.9%
Mining	58.6	60.1	62.2	54.4	44.2	48.0	54.1	58.3	55.7
Annual Growth	13.0%	2.5%	3.5%	-12.6%	-18.7%	8.6%	12.7%	7.9%	-4.6%
Construction	70.4	74.7	75.4	77.4	77.4	77.2	78.1	80.8	82.5
Annual Growth	3.1%	6.1%	0.9%	2.7%	-0.1%	-0.2%	1.1%	3.5%	2.1%
Manufacturing	135.7	136.8	139.5	137.2	128.8	128.2	130.6	130.8	130.2
Annual Growth	4.5%	0.8%	2.0%	-1.7%	-6.1%	-0.5%	1.9%	0.2%	-0.5%
Trade, Trans., Utilities	289.9	294.6	301.3	307.0	306.1	303.2	308.5	314.2	318.1
Annual Growth	2.7%	1.6%	2.3%	1.9%	-0.3%	-1.0%	1.8%	1.8%	1.2%
Wholesale	57.6	58.7	60.3	60.0	58.2	58.1	60.5	62.0	62.2
Annual Growth	3.7%	2.0%	2.7%	-0.6%	-3.0%	-0.1%	4.2%	2.4%	0.4%
Retail	173.2	175.0	178.8	183.2	183.8	179.2	180.8	183.2	185.8
Annual Growth	1.5%	1.1%	2.2%	2.4%	0.3%	-2.5%	0.9%	1.3%	1.4%
Transport, Utilities	59.2	60.8	62.2	63.8	64.2	66.0	67.2	69.0	70.1
Annual Growth	5.2%	2.8%	2.3%	2.6%	0.6%	2.8%	1.9%	2.6%	1.6%
Utilities	11.7	11.7	12.0	11.9	11.1	10.8	11.0	11.3	11.5
Annual Growth	3.7%	0.5%	2.3%	-0.6%	-7.1%	-2.6%	2.2%	2.3%	1.8%
Transport	47.5	49.1	50.2	51.9	53.1	55.2	56.2	57.7	58.6
Annual Growth	5.6%	3.3%	2.3%	3.4%	2.3%	3.9%	1.8%	2.7%	1.6%
Information	22.5	21.8	21.2	21.2	21.2	20.5	19.2	18.5	18.1
Annual Growth	-2.5%	-3.0%	-2.7%	0.0%	-0.1%	-3.4%	-6.2%	-3.4%	-2.2%
Finance	78.1	78.9	79.5	79.5	78.7	79.1	79.5	79.8	79.8
Annual Growth	0.7%	1.0%	0.8%	0.0%	-1.0%	0.4%	0.6%	0.3%	0.1%
Prof. & Business Services	179.5	181.3	184.5	184.2	181.5	185.4	190.5	194.2	196.5
Annual Growth	2.1%	1.0%	1.8%	-0.1%	-1.5%	2.1%	2.8%	2.0%	1.2%
Scientific	65.9	67.0	67.8	69.1	69.0	69.4	69.8	70.5	70.8
Annual Growth	2.4%	1.6%	1.2%	1.9%	-0.1%	0.6%	0.6%	1.0%	0.5%

Oklahoma Employment Outlook

Variable/Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Management	17.8	18.1	18.3	18.6	18.7	18.7	18.9	19.4	20.0
Annual Growth	5.5%	1.8%	1.1%	1.5%	0.5%	0.0%	0.9%	3.1%	2.7%
Administrative	95.9	96.2	98.4	96.6	93.9	97.3	101.8	104.3	105.7
Annual Growth	1.2%	0.3%	2.3%	-1.8%	-2.8%	3.6%	4.7%	2.4%	1.3%
Education & Health	226.2	227.7	228.1	231.6	233.8	234.7	237.0	238.9	241.1
Annual Growth	1.4%	0.6%	0.2%	1.5%	1.0%	0.4%	1.0%	0.8%	0.9%
Education	19.2	19.4	19.7	20.0	20.0	19.4	20.0	20.3	20.6
Annual Growth	1.0%	1.2%	1.5%	1.1%	0.1%	-2.6%	3.0%	1.5%	1.4%
Health	207.0	208.3	208.4	211.6	213.8	215.2	217.0	218.6	220.5
Annual Growth	1.4%	0.6%	0.0%	1.6%	1.0%	0.7%	0.8%	0.7%	0.9%
Leisure	147.4	151.9	156.2	162.0	165.2	167.9	173.0	177.6	181.4
Annual Growth	3.0%	3.0%	2.9%	3.7%	2.0%	1.6%	3.0%	2.6%	2.1%
Arts	14.5	14.9	15.1	16.4	16.9	17.1	17.1	17.8	18.1
Annual Growth	1.6%	2.5%	1.6%	8.5%	3.3%	0.8%	0.3%	3.7%	1.9%
Accomm. & Food Services	132.9	137.0	141.1	145.6	148.3	150.9	155.9	159.8	163.3
Annual Growth	3.2%	3.1%	3.0%	3.1%	1.9%	1.7%	3.3%	2.5%	2.2%
Other	58.6	59.1	60.1	62.4	64.2	68.0	70.0	71.4	74.1
Annual Growth	-0.4%	0.9%	1.7%	3.7%	3.0%	5.8%	3.0%	2.0%	3.7%
Government	347.1	348.6	348.4	351.2	352.3	350.1	351.5	353.2	355.5
Annual Growth	0.9%	0.4%	-0.1%	0.8%	0.3%	-0.6%	0.4%	0.5%	0.6%
Federal	48.4	47.1	46.3	46.9	48.1	48.5	48.6	49.0	49.1
Annual Growth	-1.6%	-2.5%	-1.8%	1.4%	2.5%	0.9%	0.2%	0.8%	0.1%
State	86.4	86.3	85.8	85.5	84.9	83.5	84.1	84.8	85.1
Annual Growth	1.9%	-0.1%	-0.6%	-0.3%	-0.7%	-1.6%	0.7%	0.8%	0.4%
Local	212.4	215.1	216.3	218.7	219.2	218.0	218.8	219.4	221.3
Annual Growth	1.2%	1.3%	0.5%	1.1%	0.2%	-0.6%	0.4%	0.3%	0.9%
Indian	39.9	41.8	42.3	44.1	46.1	47.3	47.9	48.6	49.8
Annual Growth	0.1%	4.8%	1.3%	4.1%	4.6%	2.6%	1.4%	1.4%	2.6%
Avg. Weekly Earnings	$741.9	$744.4	$757.8	$757.3	$770.7	$811.3	$835.7	$848.3	$855.7
Annual Growth	2.7%	0.3%	1.8%	-0.1%	1.8%	5.3%	3.0%	1.5%	0.9%

Oklahoma Employment Outlook									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Unemployed	94,605	95,212	80,583	80,732	88,136	78,708	65,927	59,120	63,350
Annual Growth	-9.2%	0.6%	-15.4%	0.2%	9.2%	-10.7%	-16.2%	-10.3%	7.2%
Employed	1,709,258	1,706,861	1,715,600	1,749,626	1,741,277	1,755,604	1,791,205	1,806,140	1,815,552
Annual Growth	2.4%	-0.1%	0.5%	2.0%	-0.5%	0.8%	2.0%	0.8%	0.5%
Labor Force	1,803,862	1,802,073	1,796,183	1,830,358	1,829,413	1,834,312	1,857,132	1,865,261	1,878,902
Annual Growth	1.8%	-0.1%	-0.3%	1.9%	-0.1%	0.3%	1.2%	0.4%	0.7%
Un Rate (Avg. Annual)	5.2	5.3	4.5	4.4	4.8	4.3	3.6	3.2	3.4

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

Oklahoma Production, Income, and Population									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Real GDP	$173,484	$177,602	$188,065	$194,763	$189,572	$190,917	$194,472	$200,057	$202,197
Annual Growth	5.0%	2.4%	5.9%	3.6%	-2.7%	0.7%	1.9%	2.9%	1.1%
Personal Income	$158,236	$165,860	$176,377	$172,636	$165,107	$174,435	$182,039	$185,550	$185,243
Annual Growth	7.1%	4.8%	6.3%	-2.1%	-4.4%	5.6%	4.4%	1.9%	-0.2%
Population	3,816,578	3,849,213	3,876,297	3,903,429	3,920,751	3,931,363	3,941,697	3,955,852	3,969,148
Annual Growth	0.8%	0.9%	0.7%	0.7%	0.4%	0.3%	0.3%	0.4%	0.3%
Per Capita Income	$41,459	$43,089	$45,501	$44,228	$42,111	$44,370	$46,183	$46,905	$46,671
Annual Growth	6.2%	3.9%	5.6%	-2.8%	-4.8%	5.4%	4.1%	1.6%	-0.5%
RGDP per Capita	$45,455	$46,139	$48,514	$49,896	$48,351	$48,563	$49,337	$50,572	$50,942
Annual Growth	4.2%	1.5%	5.1%	2.8%	-3.1%	0.4%	1.6%	2.5%	0.7%
HPI Non-metro	175.4	178.3	182.4	187.9	192.9	200.3	203.2	208.9	212.3
Annual Growth	1.7%	1.6%	2.3%	3.0%	2.6%	3.9%	1.4%	2.8%	1.6%
HPI Statewide	202.8	206.3	212.3	221.0	227.7	236.5	244.9	253.2	259.1
Annual Growth	1.5%	1.7%	2.9%	4.1%	3.0%	3.9%	3.6%	3.4%	2.4%

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

Oklahoma City Employment Outlook									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Nonfarm	594.6	608.7	620.5	630.3	629.8	634.6	650.5	664.1	673.4
Annual Growth	2.5%	2.4%	1.9%	1.6%	-0.1%	0.8%	2.5%	2.1%	1.4%
Private	472.1	484.1	495.8	503.4	500.9	506.0	520.5	533.1	541.3
Annual Growth	3.0%	2.5%	2.4%	1.5%	-0.5%	1.0%	2.9%	2.4%	1.5%
Mining	20.0	20.8	21.6	19.9	16.5	18.5	21.1	23.3	23.0
Annual Growth	17.7%	4.3%	3.5%	-7.5%	-17.1%	11.9%	13.7%	10.7%	-1.4%
Construction	26.5	27.1	28.3	29.2	29.3	29.2	30.5	30.9	31.5
Annual Growth	2.4%	2.4%	4.6%	3.0%	0.2%	-0.2%	4.5%	1.2%	2.0%
Manufacturing	35.1	36.5	37.5	37.4	34.5	33.4	34.5	35.5	35.6
Annual Growth	6.6%	4.0%	2.9%	-0.2%	-7.7%	-3.4%	3.3%	2.9%	0.2%
Trade, Transport, Utilities	102.9	107.0	109.5	111.8	112.2	111.3	112.0	114.6	116.4
Annual Growth	2.9%	4.0%	2.4%	2.1%	0.3%	-0.8%	0.6%	2.3%	1.6%
Wholesale	22.7	23.9	24.5	24.6	24.1	24.0	23.7	24.5	24.9
Annual Growth	5.5%	5.1%	2.4%	0.5%	-2.2%	-0.1%	-1.3%	3.2%	1.8%
Retail	62.3	64.2	65.9	67.6	68.2	66.4	66.6	67.9	68.9
Annual Growth	1.9%	3.0%	2.7%	2.6%	0.9%	-2.7%	0.3%	2.0%	1.5%
Transport, Utilities	17.8	18.9	19.1	19.6	19.9	20.9	21.7	22.2	22.6
Annual Growth	3.3%	5.9%	1.2%	2.6%	1.4%	4.8%	3.9%	2.4%	1.8%
Information	8.6	8.2	8.1	8.3	8.2	7.7	7.3	7.4	7.3
Annual Growth	-4.4%	-4.7%	-0.7%	1.5%	-1.2%	-6.0%	-4.6%	0.5%	-0.7%
Finance	31.8	32.4	33.1	33.3	33.1	33.2	33.3	33.7	34.1
Annual Growth	3.1%	1.9%	2.4%	0.6%	-0.6%	0.3%	0.1%	1.2%	1.3%
Prof. & Business Services	76.8	77.6	78.7	79.6	79.6	81.4	84.6	85.8	85.1
Annual Growth	1.3%	1.1%	1.4%	1.2%	-0.1%	2.3%	3.9%	1.4%	-0.7%
Scientific	29.9	29.9	30.1	31.2	32.3	33.2	32.9	33.1	32.5
Annual Growth	2.8%	-0.3%	0.9%	3.5%	3.6%	2.7%	-1.0%	0.8%	-1.9%
Management	8.8	9.0	9.4	9.5	9.5	9.6	9.9	10.1	10.2
Annual Growth	12.9%	2.5%	4.5%	1.3%	-0.5%	1.7%	2.2%	2.0%	1.2%

Oklahoma City Employment Outlook									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Administrative	38.0	38.7	39.1	38.9	37.8	38.5	41.9	42.6	42.5
Annual Growth	-2.1%	1.8%	1.1%	-0.6%	-3.0%	2.0%	8.6%	1.8%	-0.3%
Education & Health	86.4	88.0	88.9	90.5	91.2	91.8	93.4	95.5	97.5
Annual Growth	2.4%	1.7%	1.1%	1.8%	0.7%	0.7%	1.8%	2.2%	2.1%
Health	77.4	78.7	79.5	81.1	81.9	82.8	82.2	82.7	83.4
Annual Growth	2.5%	1.7%	1.0%	2.0%	1.0%	1.0%	-0.7%	0.6%	0.8%
Leisure	61.7	64.2	65.9	68.0	70.0	71.7	75.3	79.3	82.5
Annual Growth	2.9%	4.0%	2.7%	3.1%	2.9%	2.5%	5.0%	5.3%	4.0%
Other	22.4	22.4	24.0	25.2	26.4	27.9	28.7	29.9	31.4
Annual Growth	-1.4%	0.0%	7.3%	5.0%	4.5%	5.9%	3.0%	4.1%	5.1%
Government	122.5	124.6	124.7	127.0	129.0	128.5	129.9	131.4	133.0
Annual Growth	0.6%	1.7%	0.1%	1.8%	1.6%	-0.3%	1.1%	1.2%	1.2%
Federal	28.2	27.6	26.9	27.4	28.3	28.8	28.7	28.8	29.0
Annual Growth	-0.6%	-2.2%	-2.4%	2.0%	3.2%	1.7%	-0.2%	0.1%	0.8%
State	42.4	43.5	44.4	45.3	46.2	46.0	47.3	48.2	49.2
Annual Growth	0.8%	2.6%	2.0%	2.0%	2.0%	-0.3%	2.8%	1.9%	2.1%
Local	51.9	53.6	53.5	54.3	54.5	53.7	53.9	54.5	54.8
Annual Growth	1.2%	3.2%	-0.2%	1.5%	0.4%	-1.3%	0.3%	1.1%	0.6%

Oklahoma City Production, Income, and Population									
Variable/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Gross Metro Product	$59,137	$61,798	$62,376	$67,710	$66,202	$67,714	$69,136	$70,540	$72,108
Annual Growth	3.3%	4.5%	0.9%	8.6%	-2.2%	2.3%	2.1%	2.0%	2.2%
Gross Product_Private	$48,897	$51,521	$52,051	$57,318	$55,619	$57,374	$58,159	$59,464	$60,928
Annual Growth	4.2%	5.4%	1.0%	10.1%	-3.0%	3.2%	1.4%	2.2%	2.5%
Gross Product_Goods	$11,561	$13,210	$12,336	$17,411	$15,190	$16,118	$16,711	$17,443	$18,365
Annual Growth	4.9%	14.3%	-6.6%	41.1%	-12.8%	6.1%	3.7%	4.4%	5.3%
Gross Product_Services	$37,353	$38,204	$39,732	$39,738	$39,959	$40,848	$41,448	$42,021	$42,564
Annual Growth	4.0%	2.3%	4.0%	0.0%	0.6%	2.2%	1.5%	1.4%	1.3%
Personal Income	$55,012	$56,619	$59,989	$61,525	$61,348	$65,170	$68,780	$72,146	$74,384
Annual Growth	5.7%	2.9%	6.0%	2.6%	-0.3%	6.2%	5.5%	4.9%	3.1%
Population	1,297,041	1,319,469	1,335,736	1,356,118	1,372,463	1,383,737	1,401,386	1,421,337	1,443,114
Annual Growth	1.6%	1.7%	1.2%	1.5%	1.2%	0.8%	1.3%	1.4%	1.5%
Per Capita Income	$42,413	$42,910	$44,911	$45,369	$44,699	$47,097	$49,080	$50,759	$51,544
Annual Growth	4.0%	1.2%	4.7%	1.0%	-1.5%	5.4%	4.2%	3.4%	1.5%
Earnings	$40,472	$42,545	$44,890	$45,809	$44,813	$48,193	$50,739	$52,981	$54,278
Annual Growth	5.7%	5.1%	5.5%	2.0%	-2.2%	7.5%	5.3%	4.4%	2.4%
Employment_Total	814,008	832,874	846,309	857,526	861,565	870,743	896,821	914,150	924,727
Annual Growth	3.0%	2.3%	1.6%	1.3%	0.5%	1.1%	3.0%	1.9%	1.2%
Average Earnings	$49,719	$51,083	$53,041	$53,420	$52,013	$55,347	$56,577	$57,956	$58,696
Annual Growth	2.7%	2.7%	3.8%	0.7%	-2.6%	6.4%	2.2%	2.4%	1.3%

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

FIVE-YEAR FORECAST

FISCAL YEAR 2020 - 2024

SECTION 4

FINANCIAL TRENDS

INTRODUCTION

Local governments, even those with historically strong financial track records, face challenges in financial management that are unique from their corporate counterparts. One main reason for this difference is that while there is much agreement on factors to consider when evaluating the financial condition of a business, there is not a similar general consensus on how to evaluate the condition of a local government.[1] Even with the abundance of information provided in the Budget document and in the Comprehensive Annual Financial Report (CAFR), key data between two governments can differ significantly and the motives and rationale behind the decision making process can be fundamentally different. With this in mind, staff has incorporated the Financial Trend Monitoring System (FTMS) as part of the Five-Year Forecast. This method of financial analysis is presented in *Evaluating Financial Condition: A Handbook for Local Government* published by The International City/County Management Association (ICMA). This is the 12th year using the FTMS.

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

The goal is to use the FTMS as a management tool to recognize multiple key quantifiable indicators and consider the trend of these indicators within the context of Oklahoma City's current environment, organizational structure and strategy. This way, City decision makers are provided with a more comprehensive evaluation of financial condition rather than 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?

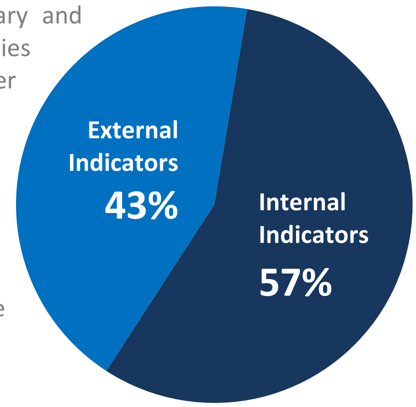
Financial condition refers to a government's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change. More specifically, financial condition refers to:

- **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.
- **Service Level Solvency** – a government's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community.[1]

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

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

FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.[1] Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government early to potential problems and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation 23 measures were used, including a new indicator, *Number of Hotel Room Nights Sold.* The measures omitted were either not applicable to Oklahoma City or the data is currently not available for the indicator. The group of indicators chosen should help Oklahoma City:



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

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

TREND PERIOD

A time period of five years was analyzed for the trend analysis. In most instances, the most recent five years (2014-2018) were examined. There were some instances when 2018 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:

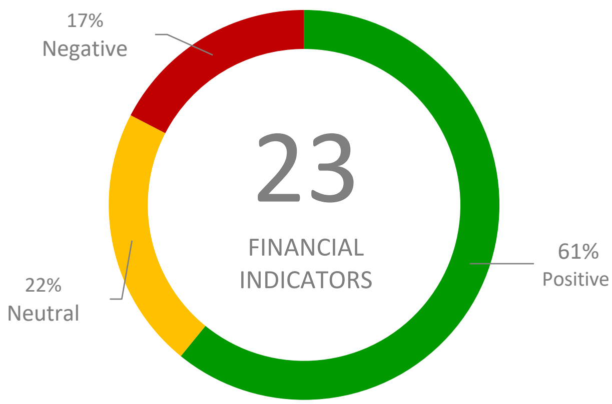
- A **positive** trend is favorable towards the City's financial condition and/or the indicator is meeting City policy or performance measures set by management.
- A **neutral** trend implies there is no immediate concern. These indicators are watched carefully for change to indicate early signs of improvement 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 **14 positive** indicators, 5 **neutral** indicators, and **4 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.

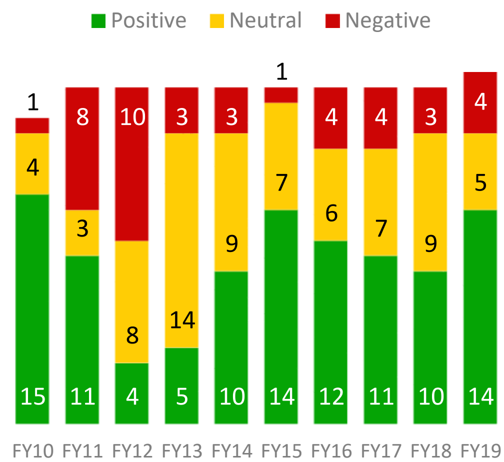
THE NEXT STEP

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 downtown experienced in FY16 and FY17. Management will continue to monitor financial trends and develop strategies to keep the City moving in a positive financial direction.

FY19 INDICATOR RATINGS



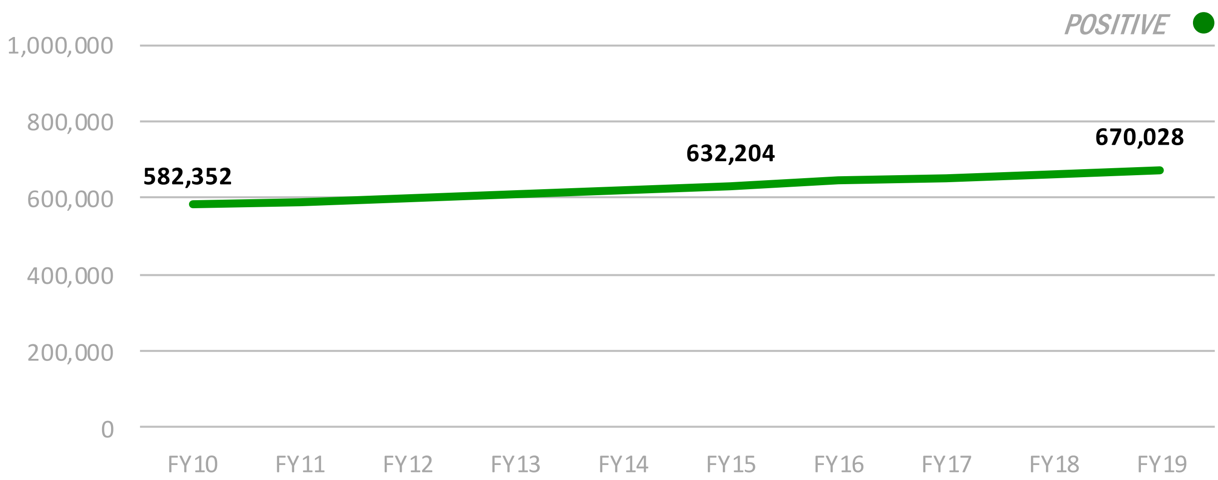
INDICATOR HISTORY



FY10	FY11	FY12	FY13	FY14	FY15	F16	FY17	FY18	FY19	EXTERNAL INDICATORS
●	●	●	●	●	●	●	●	●	●	Population
N/A	N/A	N/A	N/A	●	●	◆	◆	▲	●	Average Weekly Earnings
▲	◆	▲	●	●	●	●	●	●	●	Labor Force
●	●	▲	●	N/A	N/A	N/A	N/A	N/A	N/A	Per Capita Personal Income
▲	▲	▲	◆	▲	●	●	●	●	▲	Crime Rate
●	●	●	▲	▲	▲	●	●	●	●	Property Value
●	●	▲	●	▲	▲	▲	▲	▲	◆	Office Vacancy Rate
●	◆	◆	▲	●	●	●	●	●	●	Airport Activity
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	●	Hotel Room Nights Sold new
N/A	◆	▲	●	●	●	◆	◆	◆	◆	Private Development Plans
N/A	◆	●	●	▲	●	◆	◆	▲	●	Active Drilling Rigs

FY10	FY11	FY12	FY13	FY14	FY15	F16	FY17	FY18	FY19	INTERNAL INDICATORS
●	◆	▲	▲	●	●	●	●	●	●	Revenue Per Capita
●	●	◆	◆	▲	▲	▲	◆	◆	▲	Revenue Accuracy
●	◆	▲	●	●	●	●	▲	◆	●	Sales Tax Revenues
●	▲	▲	▲	▲	▲	▲	▲	▲	▲	Sales Tax as a % of General Fund
●	◆	▲	●	●	●	●	●	▲	●	Hotel Tax Revenue
◆	◆	▲	▲	▲	◆	◆	▲	▲	◆	Grant Revenues
●	●	▲	▲	▲	▲	▲	▲	▲	▲	Employees per 1,000 Citizens
▲	●	▲	▲	▲	▲	▲	▲	▲	◆	Fringe Benefits
●	●	◆	◆	●	●	●	●	●	●	Pension Funding Ratio
▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	Long-Term Debt
●	●	●	●	●	●	●	●	●	●	Fund Balance
●	●	●	●	●	●	●	●	●	●	Liquidity
●	●	▲	▲	▲	●	●	●	●	●	Enterprise Working Capital

POPULATION



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

Population grew at an average of 1.6% per year over the last five years.

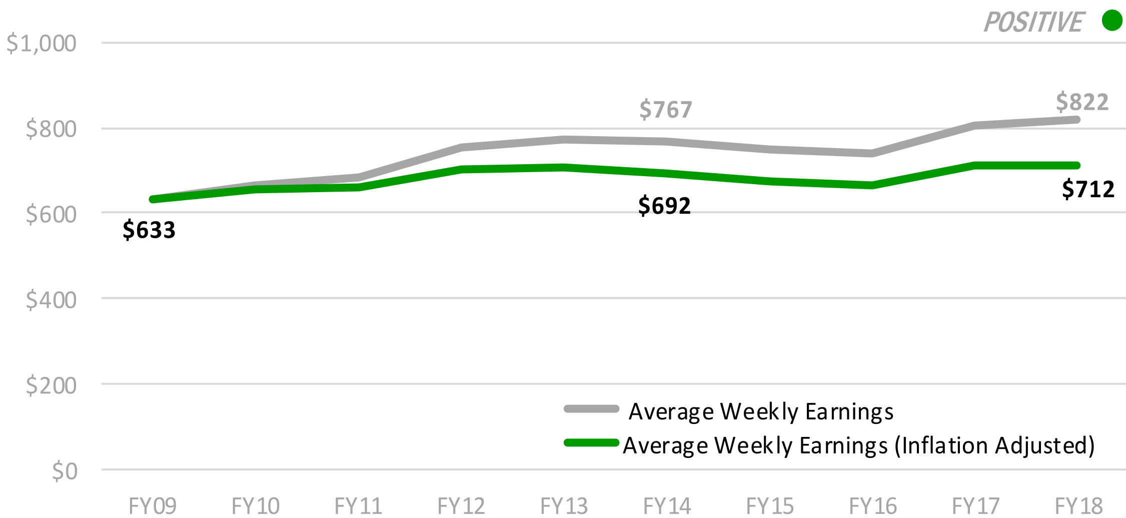
What does Population Growth Indicate?

Population change directly affects governmental revenues. A sudden increase in population can create immediate pressures for new capital outlay and increased levels of service. At first glance, a decline in population 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 FY10 with an estimated 670,028 residents in FY19.[1] This is an average annual growth rate of 1.6% over the last five and 10 years. Since the growth has been relatively steady, the trend was rated positive.

AVERAGE WEEKLY EARNINGS



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

COUNCIL PRIORITY

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?

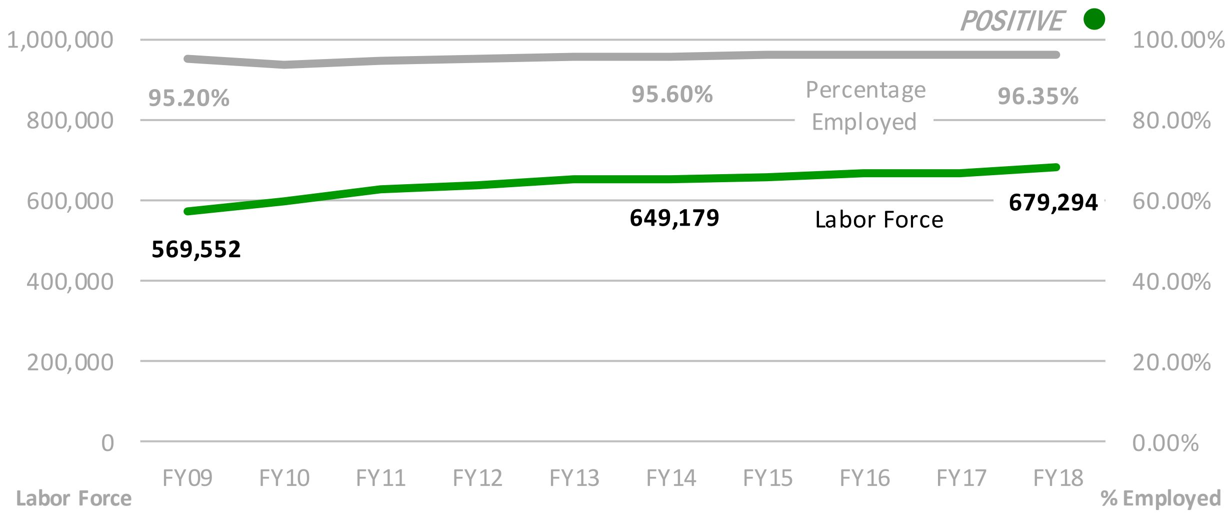
Attracting and retaining employers with jobs with higher than average earnings is one way the City can convey its commitment to economic development and positively impact citizens' income levels and quality of life. Higher weekly earnings mean residents in the OKC-MSA, on average, can purchase more goods and services than they once were. Average Weekly Earnings (AWE) declined for three consecutive years (FY14, FY15 and FY16) when the local economy took a downturn. Strong growth returned in FY17 but after adjusting for inflation, remained flat compared to five years ago. The positive trend of higher average weekly earnings continued in FY18, and after adjusting for inflation, posted growth of 3% over five years ago resulting in an improved rating from neutral to positive.

Current Year Activity

The Average Weekly Earnings for early FY19 year-to-date data shows continued improvement from the chart above. In current dollars, the AWE was $859 for July through November.

Average Weekly Earnings had 3% growth over the last 5 years after adjusting for inflation.

LABOR FORCE



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

COUNCIL PRIORITY

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 around 5% indicates "full employment" and if the rate remains consistent it can have a stabilizing effect on inflation.

Largest Employers in OKC-MSA		
Company Name	Sector	Employees
State of Oklahoma	Government	47,300
Tinker Air Force Base	Military	24,000
University of Oklahoma	Higher Educ.	12,700
FAA Mike Monroney Aeronautical Center	Aerospace	7,000
Integris Health*	Health Care	6,000
Hobby Lobby Stores, Inc.*	Whlsl & Retail	5,100
University of Health Sciences	Higher Educ.	5,000
City of Oklahoma City	**Government**	**4,700**
Mercy Hospital*	Health Care	4,500
OGE Energy Corp*	Utility	3,400
OU Medical Center	Health Care	3,300
SSM Health Care of Oklahoma, Inc.*	Health Care	3,000
University of Central Oklahoma	Higher Educ.	3,000
The Boeing Company	Aerospace	3,000

**Company Headquarters*

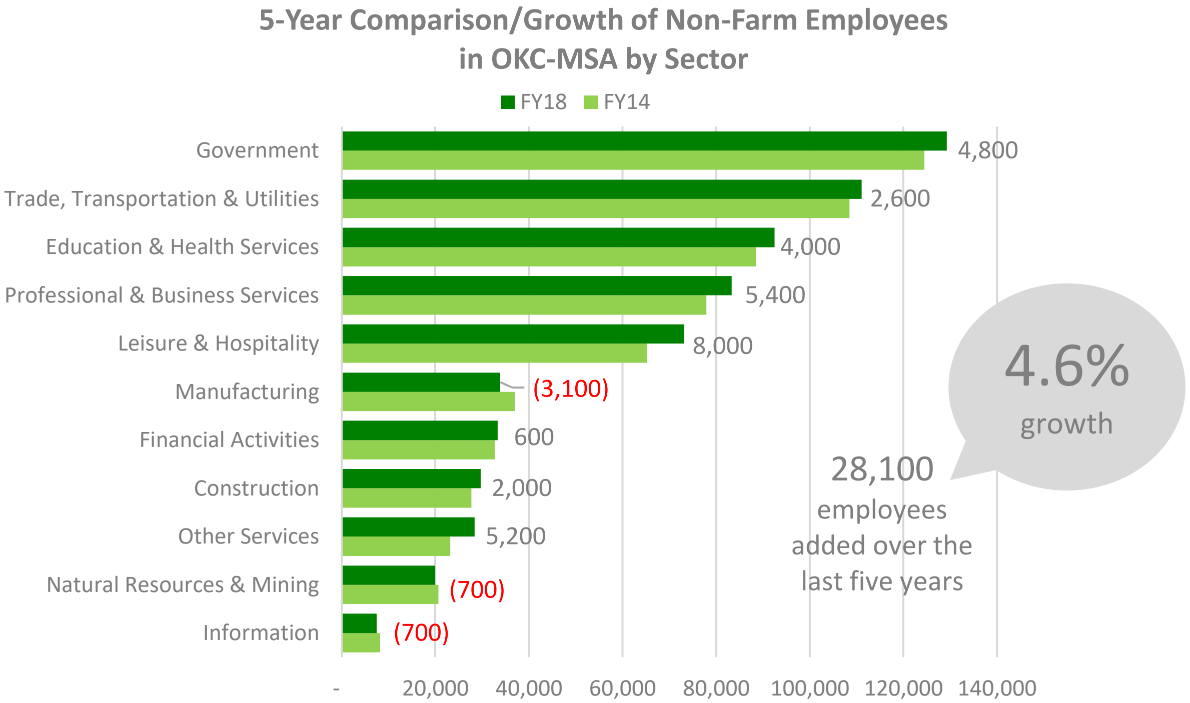
While the range for full employment may vary by expert, generally, when the unemployment rate is higher citizens are struggling to find employment; when the unemployment rate is lower, the opposite occurs and employers may struggle to fill employment vacancies. In FY18, the percentage of the labor force 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 employment has remained steady and averaged 96% 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 can find employment. In the last five years, the labor force grew by 4.6% and employment grew by 5.5%. Annual growth in the labor force and consistent employment of 96% for the last five years resulted in a positive rating for this indicator.

Employment by Sector

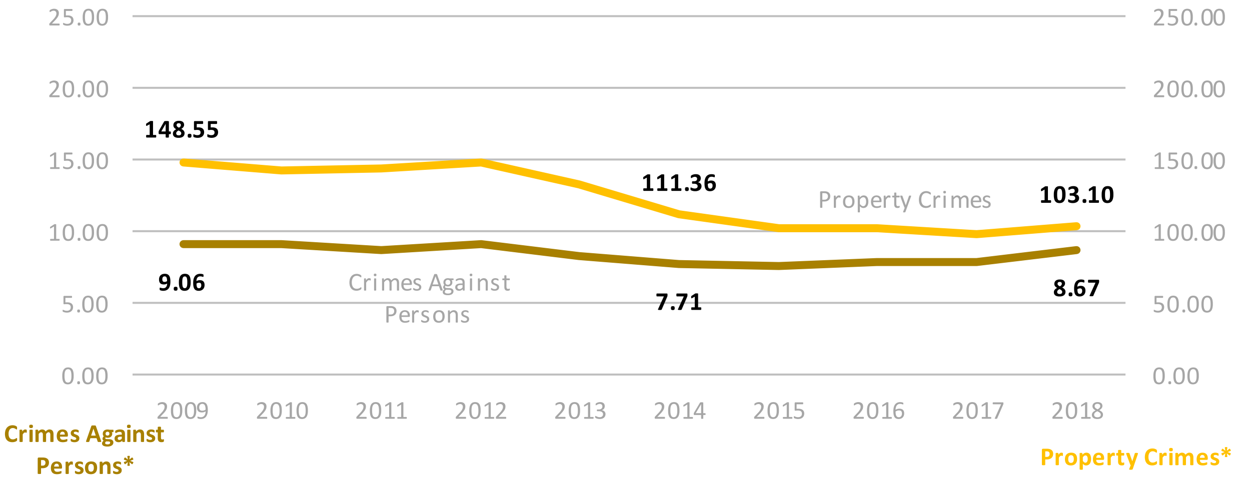
Monitoring employment by sector helps staff identify business cycles and trends that may impact the local economy. In turn, staff can use the data to recommend strategic actions and investments that diversify and help stabilize the local economy. For example, in the OKC-MSA the Leisure and Hospitality sector added 8,000 employees over the last five years while the manufacturing sector loss 3,100 employees over the same period as shown in the graph below. Additionally, the Information sector was the only sector to have declined over the five-year period without showing recent improvement.

The Leisure & Hospitality Sector had the largest increase with 8,000 employees added over the last five years.



CRIME RATE

NEUTRAL



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

Between December 2018 and January 2020, five Police academies are scheduled to graduate 242 new recruits.

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.

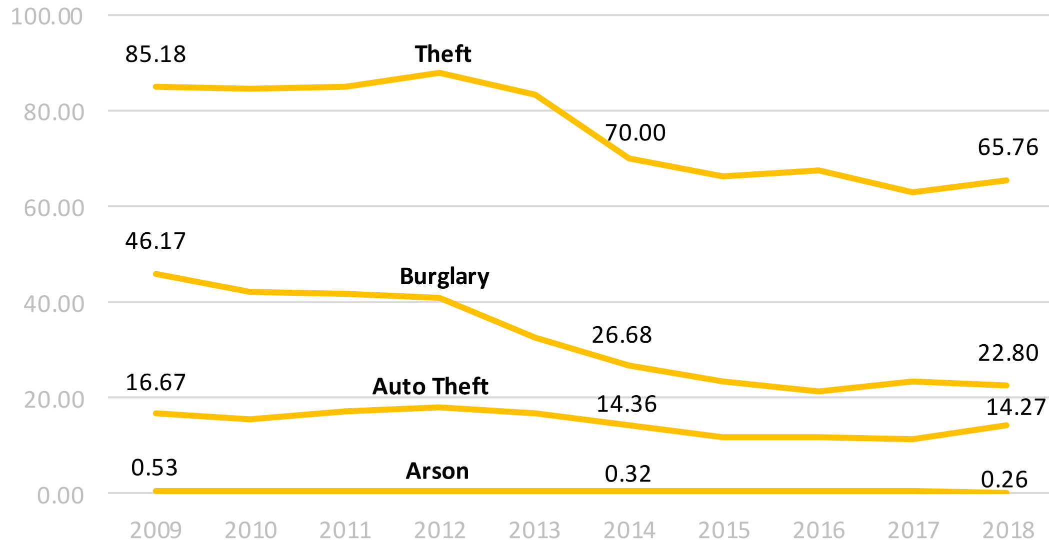
Why is This Important to Oklahoma City?

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 111.36 crimes per 1,000 households in calendar year 2014 to an estimated 103.10 in 2018. The number of crimes against persons increased from 7.71 per 1,000 in population in 2014 to an estimated 8.67 per 1,000 in population in 2018. The five-year trend of one crime category decreasing and crime category increasing was the reason this indicator was rated neutral. The Police Department attempts to identify crime trends in real time and continues to enhance its efforts with intelligence-based policing and targeted enforcement through analysis of local crime data. The Police Department also continues to embrace Community Based Policing and proactively addresses concerns expressed by Oklahoma City residents. Public Safety is a priority for City Council with 242 new recruits scheduled to graduate from five police academies between December 2018 and January 2020.

*Data for 2018 is estimated using actual data from January –September. October through December were an average of first nine months of 2018.

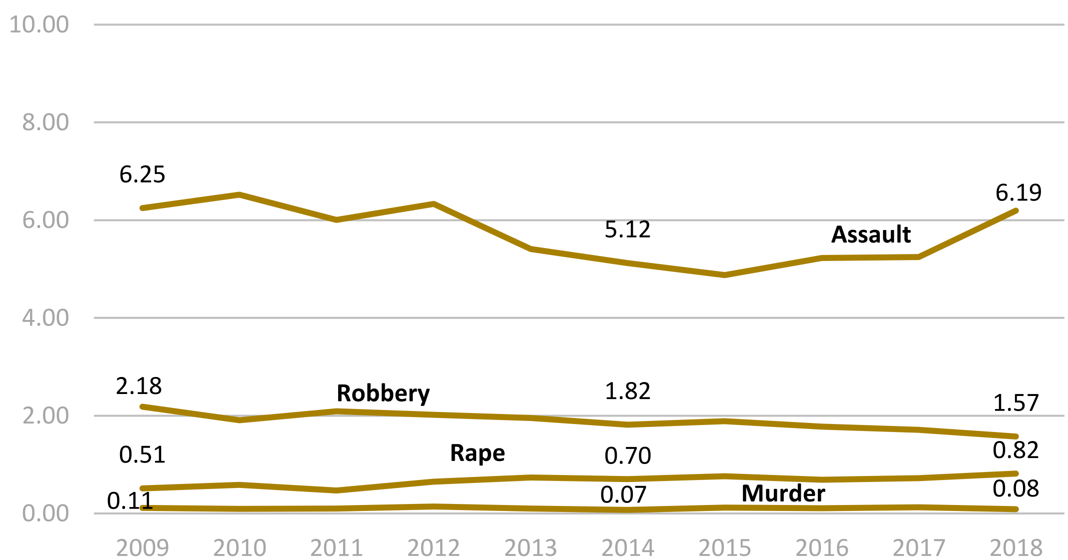
Property Crimes

The chart below is a sub-set of data behind the total number of property crimes in the graph on the preceding page. Over the last five years, property crimes per 1,000 households declined 7.42%. Theft and Auto-Theft were both up year-over-year.

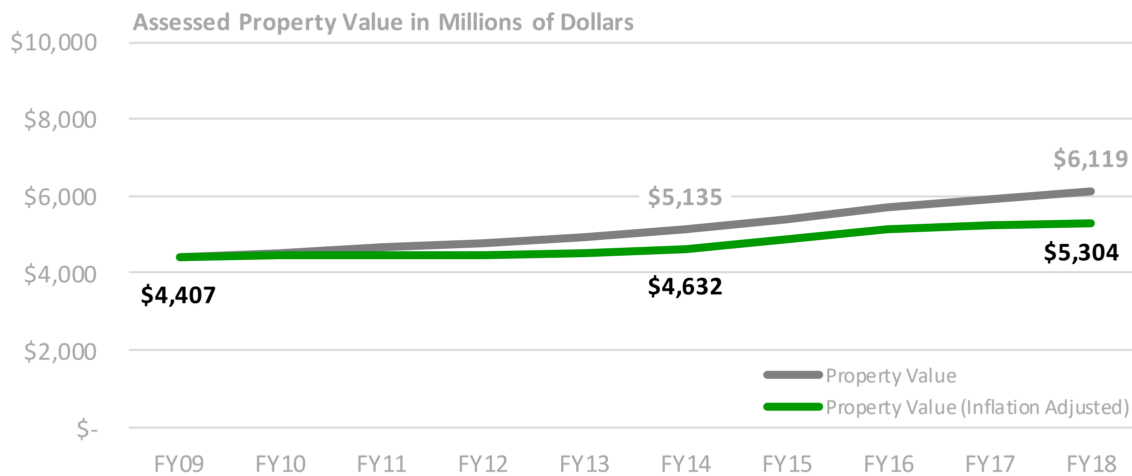


Person Crimes

The chart below is a sub-set of data behind the total number of person crimes per 1,000 residents in the graph on the preceding page. Over the last five years, person crimes per 1,000 residents increased 12.4%. Assaults, Rape and Murder were all up over the last five years while robbery was down. In reviewing year-over-year changes, Robbery and Murder were both down.



PROPERTY VALUE



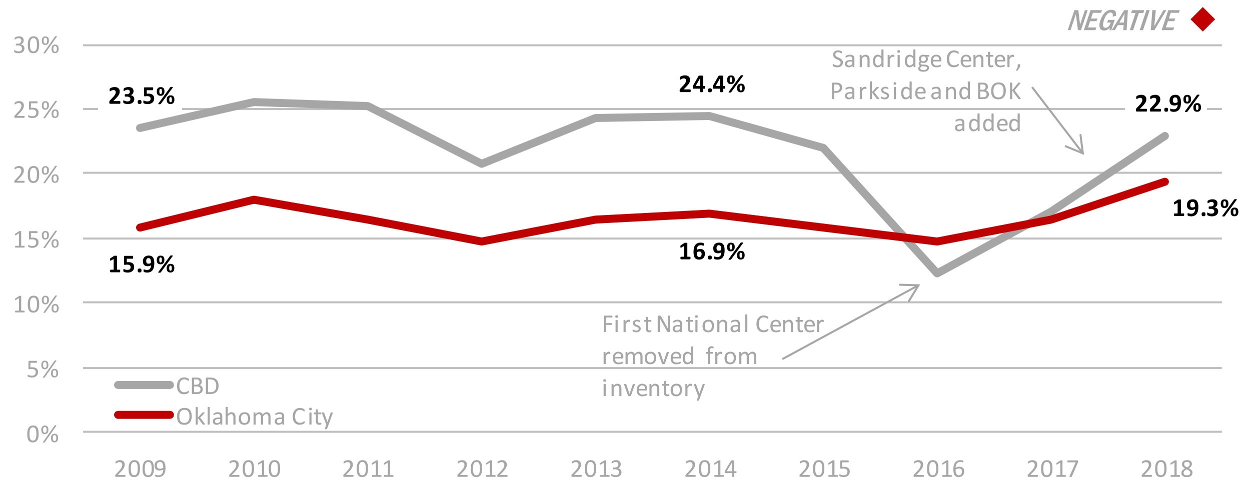
Formula: Assessed Value / CPI

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

How Can Property Values Affect a Local Government's Finances?
Even for communities that are not heavily reliant on property tax for operations, property values can be a useful sign of the health of the local economy. Population and economic growth will increase property value because demand will drive prices up. A city that is not reliant on property tax but is experiencing declines in property value still has reasons for concern because declines in property value affect revenues for capital improvement and the economic health of the City. Credit rating organizations review the local government's tax base to assess the financial capacity of a local government. A decline in property value could affect the credit rating and borrowing ability of a local government.[2]

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% annually over the next four years. In FY18, growth slowed to 1.58% after adjusting for inflation. Continued growth may be attributed to increased economic activity and population growth.[3] Based on the upward trend of inflation adjusted property values, this has been rated as a positive indicator.

OFFICE VACANCY RATE



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

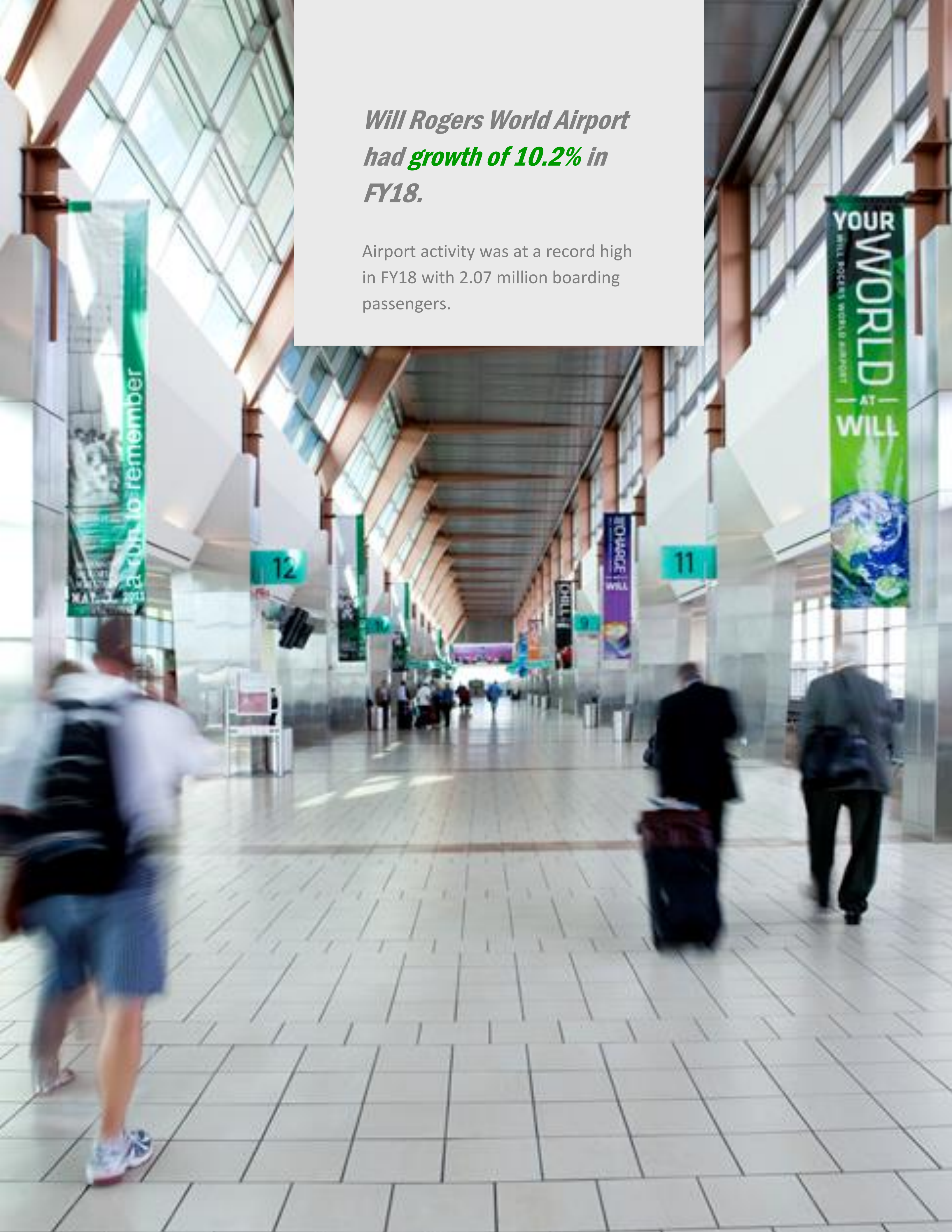
Why is Vacancy Rate an Indicator for Financial Performance?
Tracking changes in vacancy rates for all types of rental property such as residential, commercial, and industrial can provide an early warning sign of potential economic or demographic problems. If a community is an attractive place to live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

*Two years of **increased vacancy rates** resulted in a negative rating.*

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 2018 Mid-Year Office Market Summary stated *"We knew the CBD would have a tough time in 2018 and we don't anticipate that to change in the second half of the year. There are lots of large deals that will impact downtown and the suburban markets in the next 6-12 months, but for the most part they are lateral moves within those specific submarkets."* The market analysis and two years of increased vacancy rates for Oklahoma City resulted in a negative rating for this indicator.

*Will Rogers World Airport had **growth of 10.2%** in FY18.*

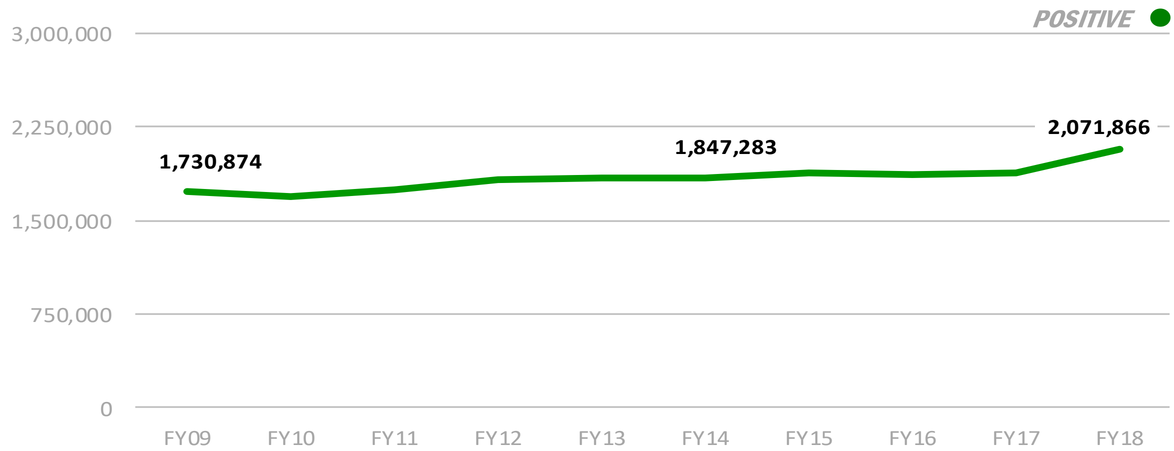
Airport activity was at a record high in FY18 with 2.07 million boarding passengers.



WILL ROGERS WORLD AIRPORT ACTIVITY

POSITIVE

COUNCIL PRIORITY



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

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

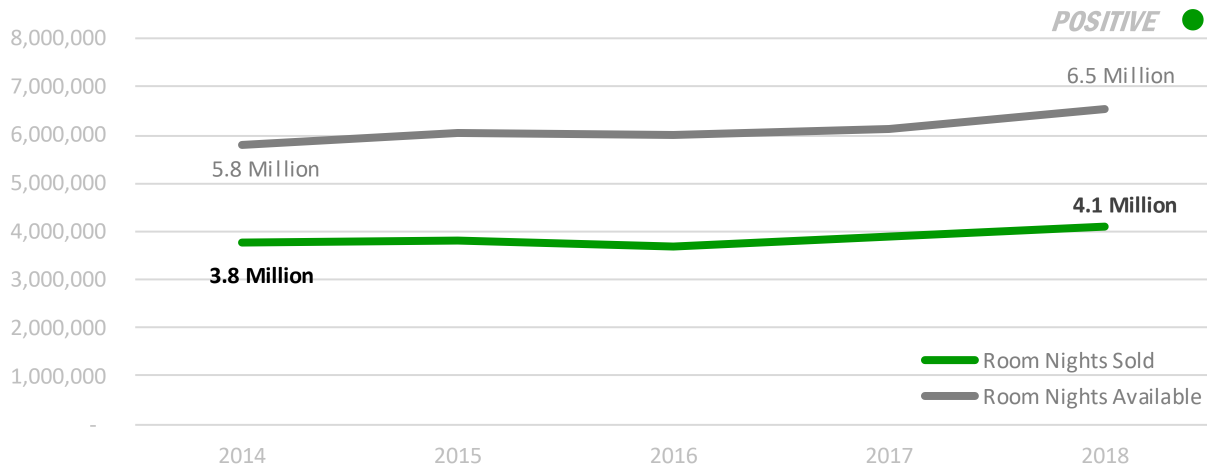
Why Is This Important to Oklahoma City?
Each of the activities mentioned above can directly affect revenue yields through tax receipts associated with tourism and commerce. Increasing the number of passengers using Oklahoma City's commercial airports is good for the City whether the travel is for business or pleasure. Since FY12 the number of nonstop destinations and airports served at Will Rogers World Airport has increased, stimulating growth in the number of travelers. Passenger activity was at a record high in FY18 with 2.07 million boarding passengers. The rating for this indicator remained positive as the number of boarding passengers has steadily increased over the last five years.

Current Year Passenger Activity
The number of boarding passengers grew 9.4% during the first six months of FY19.

28
cities served non-stop

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

new HOTEL ROOM NIGHTS SOLD



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

Why is Hotel Room Nights Sold an indicator of Financial Performance?

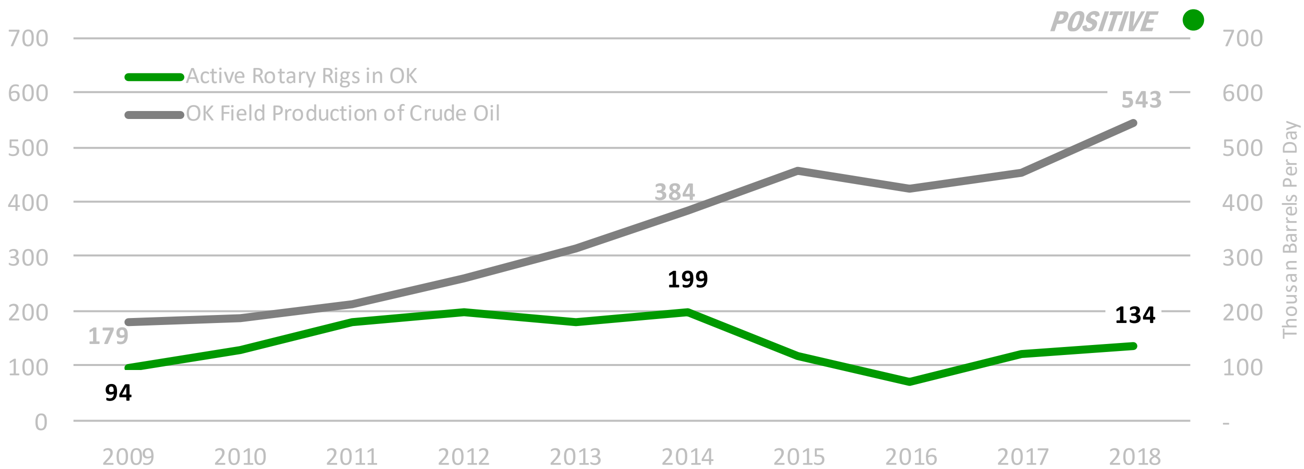
Tracking hotel room nights sold provides insight on the level of activity in one of our city's growing sectors, Tourism. Activity in this sector can grow the local economy as visitors spend money; generating revenue for Oklahoma City that otherwise would not have been earned. The hotel tax and sales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

Why is This Important to Oklahoma City?

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

Over the last five years, occupancy has remained steady averaging 63% annually. Growth has come from a 13% increase in room nights available, growing from 5.8 million room nights available in 2014 to 6.5 million room nights available in 2018. The number of room nights sold (the data being measured and reported on for this indicator) increased by 9% over the last five years or from 3.8 million to 4.1 million. In FY18, that was an average of 11,275 room nights sold each night. As the number of hotel rooms increased, occupancy remained steady, resulting in an increase in the number of hotel room nights sold and a positive rating for this indicator.

ACTIVE DRILLING RIGS



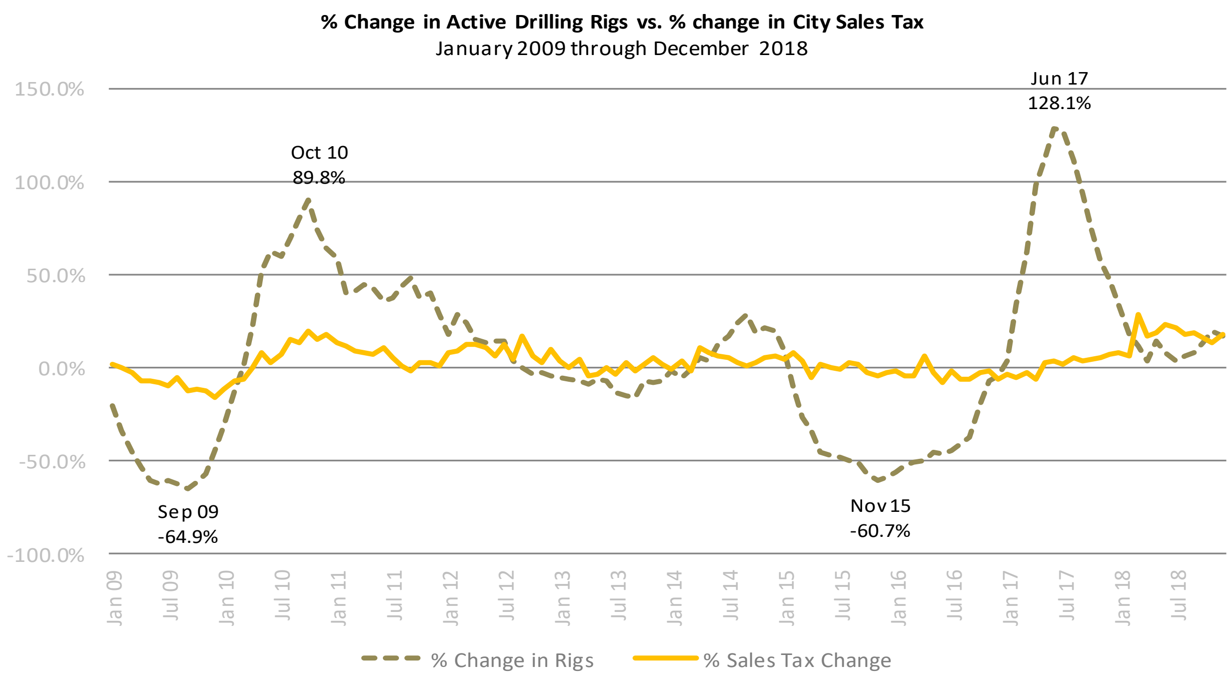
Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated[7] Field production of crude oil from Energy Information Administration (EIA)

Why are Active Drilling Wells an Indicator for Financial Performance?
Tracking oil and gas activity in the state provides insight on the level of activity in one of our state's most important sectors. Activity in this sector is 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, such as the daily field production of crude oil in Oklahoma which has been added to the graph in gray.

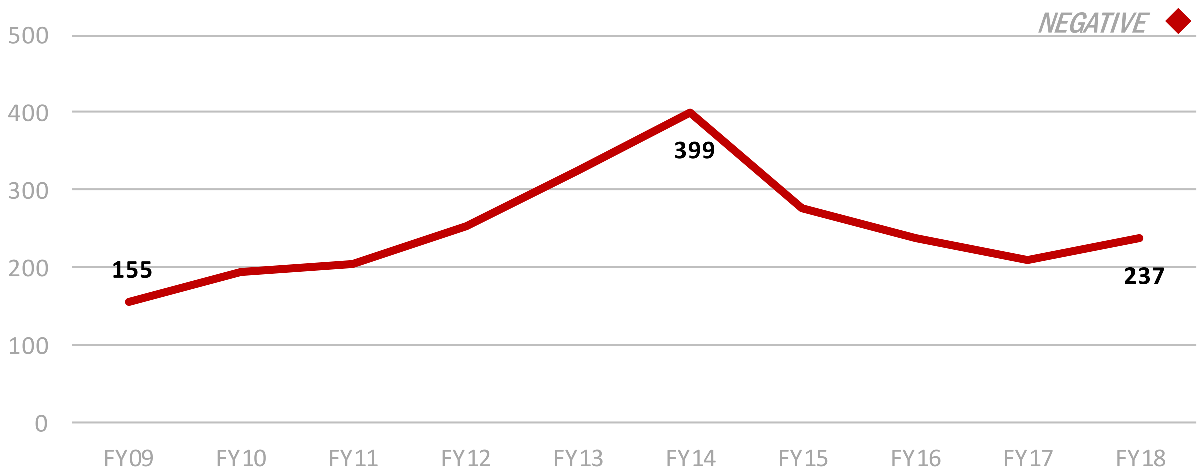
Why is This Important to Oklahoma City?
The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A study[4] conducted for the Oklahoma State Chamber of Commerce by Dr. Mark Snead, indicates that the oil and gas sector is as big a share of statewide 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 have continued to improve with 24 straight months of growth. Although the 2018 count was still below the count five years ago, the rating improved from neutral to positive because of two years of growth in rig count; more efficient drilling requiring less rigs; and more importantly, the rebound seen in the local economy.

Note: 2018 OK Field Production of Crude Oil is average from January through October 2018.

Active Drilling Rigs and City Sales Tax



PRIVATE DEVELOPMENT PLANS



Formula: Sum of Plans Submitted to the Public Works Department Engineering Line of Business for Sanitary Sewer, Paving, and Drainage[5]

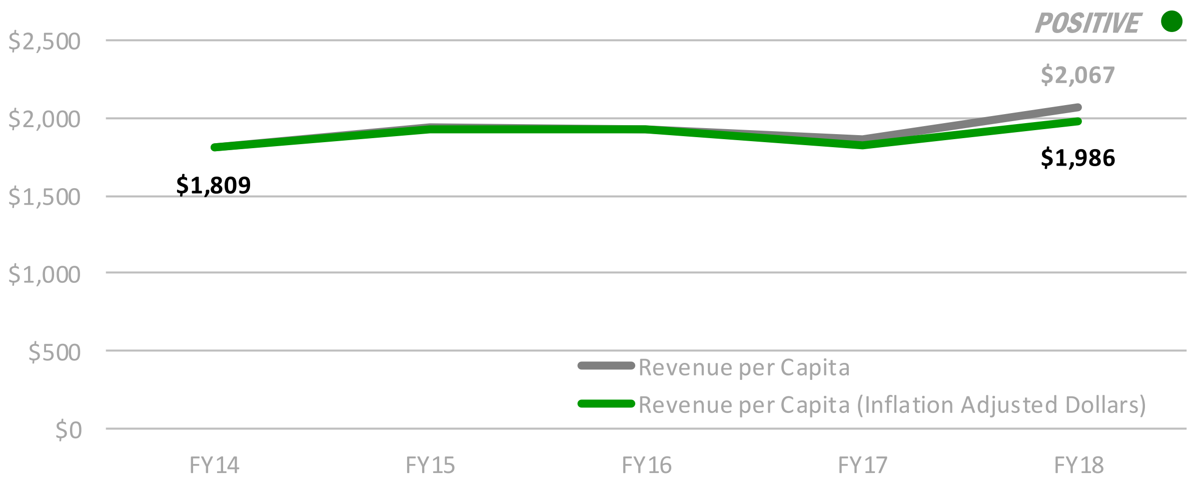
Why is the Number of Private Development Plans Submitted for Approval an Indicator for Financial Performance?

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

Why is This Important to Oklahoma City?

Private development plans submitted are a key indicator of the confidence local developers have in the economy. These permits set the stage for spending on infrastructure in both residential and commercial developments which precedes spending on construction. An increase in the number of plans submitted shows a level of confidence by developers in the prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. The actual count of private plans submitted to Public Works increased in FY18 after three straight years of decline; however, one year of improvement was not enough to indicate the trend was changing.

REVENUE PER CAPITA



Formula: Lease Operating Revenues (Inflation Adjusted Dollars) / Population

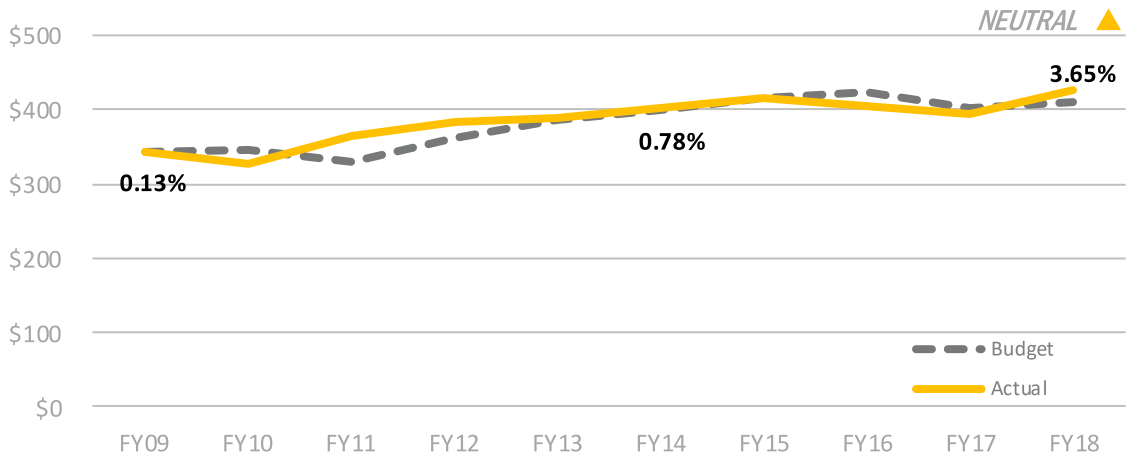
What is Revenue Per Capita?

Per capita revenue shows changes in operating revenues relative to changes in population size. As population increases, revenues and the need for services can be expected to increase proportionately. Therefore, the level of per capita revenues should remain at least constant in real terms. When per capita revenues decrease, a local government needs to 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.[1]

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.[5] Over the five-year period, revenue per capita increased 10% after adjusting for inflation. There were two straight years of decline in FY16 and FY17 due largely to a decline in primary government general revenues (General Fund Sales Tax, Service Charges, etc.) and operating grants and contribution. Although there was a dip, the indicator was rated positive due to the five-year trend. The City will continue to monitor existing revenue sources and look for new revenue possibilities to ensure revenue keeps up with population and inflation growth in the coming years.

REVENUE ACCURACY



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

Determining Revenue Accuracy

This indicator examines the difference between revenue projections and revenues actually received in the General Fund during the fiscal year. Significant continued variances in revenue from projected amounts, whether the discrepancy is an overage or shortage, can be reason for concern. Either scenario could indicate a changing economy or inaccurate forecasting techniques. Additionally, credit rating organizations such as Standard & Poor's use this indicator to review the quality of financial management in a local government since variances between budget and actual results are considered indicative of management's financial planning capabilities.[2] The worst-case scenario for this indicator would be increasing revenue shortfalls.

Why is This Important to Oklahoma City?

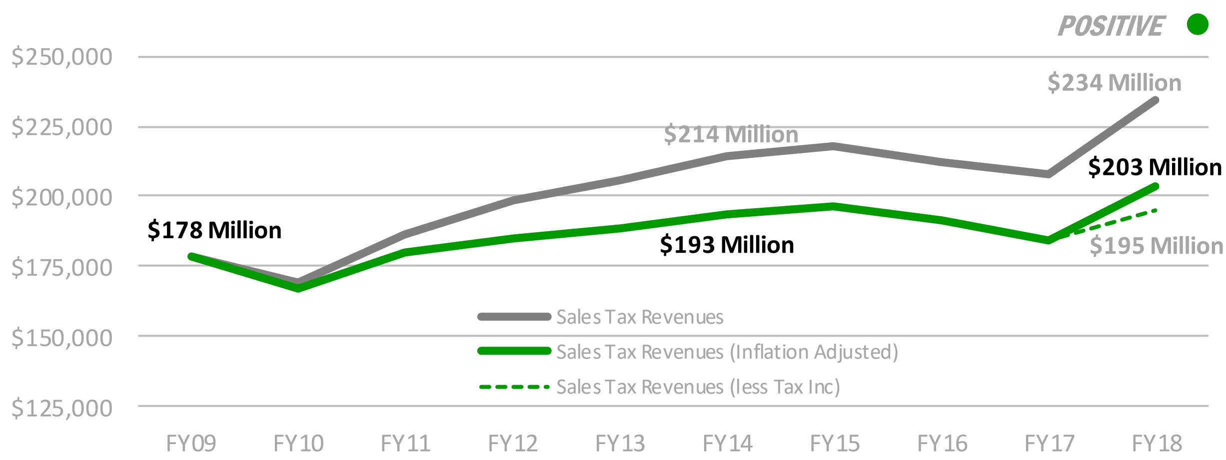
Keeping this variance to a minimum means services have not been unnecessarily reduced because of a perceived shortage in revenue that did not occur; or that new services were not established that could not be maintained because revenues failed to meet projections.

In FY09, FY13, FY14, FY15 and FY17 revenue collections were within 2% of projections. However, in FY10 Oklahoma was still feeling the impact of the recession and collections came in 5.68% below projections. Conservative projections in FY11 and FY16 were exceeded as Oklahoma City rebounded strongly from the recession; A downturn in the local economy due to the energy sector contraction resulted in FY16 collections falling 4.26% below projections and FY17 collections falling 1.99% below projections. In FY18 collections exceeded projections by 3.65% as the local economy returned to growth and tax collections from online sales began. The average absolute variance over the last five years was 2.15%, which was slightly above the City's stated goal of having revenues within 2% of projections; therefore, this indicator was rated neutral. To be rated positive, collections need to consistently trend closer to projections.

Current Year Activity

In the current fiscal year, General Fund revenue was 1.4% above projections through January, which is within the target range of 2%.

SALES TAX REVENUES



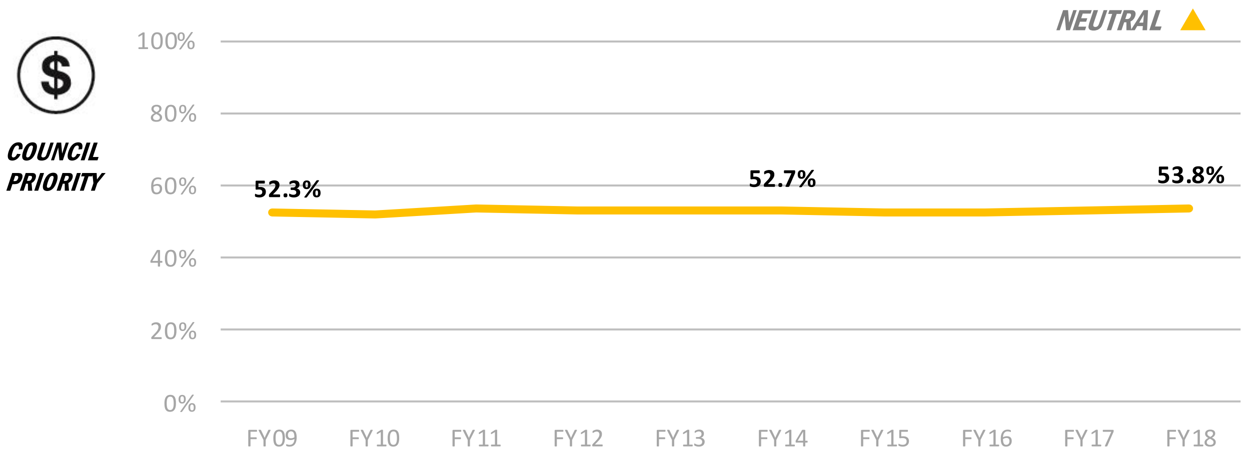
Formula: Sales Tax / Consumer Price Index (2009 used as base year)

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

Why is This Important to Oklahoma City?
With a sales tax rate increase in FY18, Sales Tax accounted for 53.8% of all General Fund revenue. 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, rate changes, changes in population, the movement of retail operations to and from other communities, and/or Sales Tax payers moving their base of operations to other jurisdictions.[3] The chart above shows FY10 decline from recession and declines in FY16 and FY17 as the local economy was impacted by a contraction in the energy sector. FY18 growth was strong at 6% base growth, plus a ¼ cent tax rate increase that was in effect for the last 3-1/2 months of the fiscal year. After adjusting for inflation, sales tax revenue increased 5.2% over the last five years, or $10 million due in large part to the ¼ cent tax rate increase which is why the indicator was rated positive. If the tax rate increase were excluded and adjusted for inflation, growth over the last five years was 0.77%.

Current Year Activity
The Oklahoma City economy has continued to grow with 21 straight months of sales tax growth. In the current fiscal year base sales tax had grown 4.46% through January and is projected to grow at 3% the remainder of the fiscal year. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

SALES TAX AS PERCENTAGE OF GENERAL FUND



Formula: Sales Tax Revenue / All General Fund Revenue

Why is Sales Tax as a % of General Fund Revenue an Indicator for Financial Performance?

Sales Tax revenue was collected at a rate of two and one-quarter cents per dollar for Oklahoma City's General Fund. In economic terms Sales Tax is considered an elastic revenue source; meaning that it changes incrementally with changes in the economy.[3] When the economy is strong, Sales Tax revenues grow, whereas when the economy is slowing Sales Tax revenues decrease. In contrast, inelastic revenue types, such as property taxes, are less responsive to changes in the economy. For example, the revenue generated from property tax, being based on assessed valuation, generally remains stable regardless of the direction the economy is moving in the near-term because it takes longer for economic activity to impact assessed values.

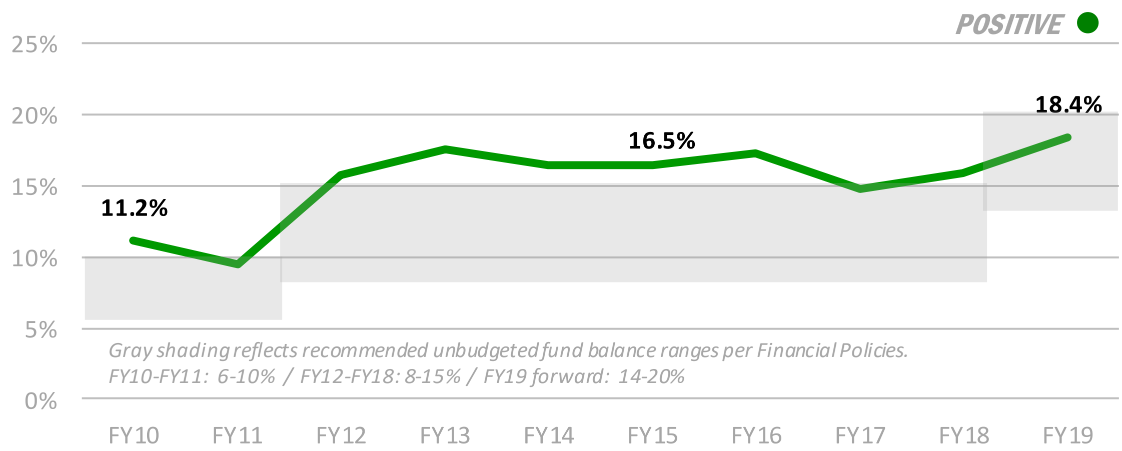
Why is This Important to Oklahoma City?

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

Current Year Activity

In FY19 sales tax is projected to be 55% of all General Fund revenue.

FUND BALANCE



COUNCIL PRIORITY

Formula: Unbudgeted Fund Balance / Budgeted Revenues

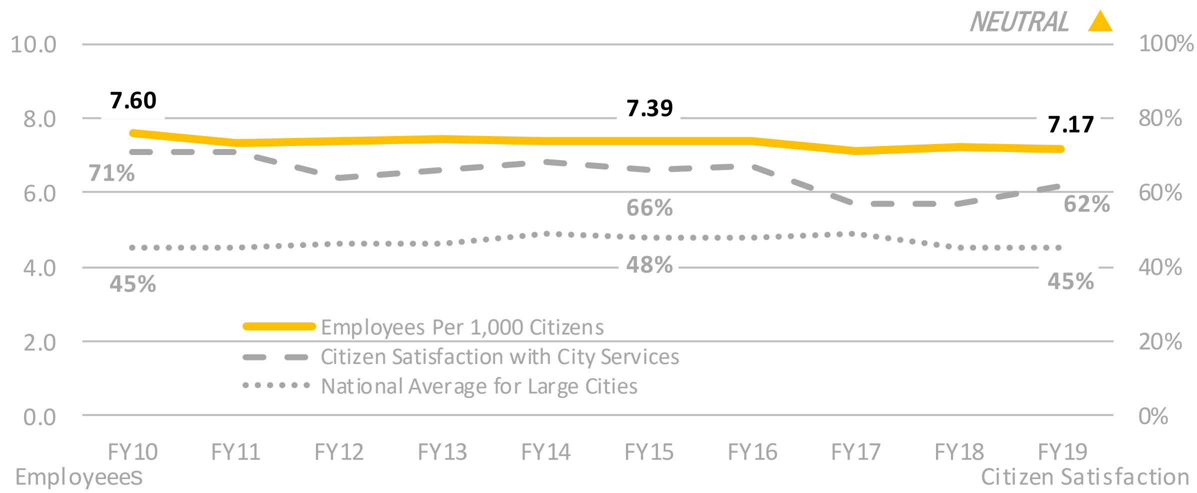
What is fund balance?

At the most basic level, fund balance is the money left at the end of the year after all revenues have been received and all expenditures have been made. The portion of fund balance not budgeted remains as an unbudgeted reserve. The size of a local government's fund balance can affect its ability to withstand financial emergencies and accumulate funds for capital projects. Usually a local government will attempt to operate each year with a surplus to maintain a positive fund balance. An unplanned decline in fund balance or continuing subsidies from fund balance to cover operating expenses 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. In FY11, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. In FY18, City Council amended the financial policies and established a range of 14-20% for unbudgeted fund balance which is equivalent to a minimum of two months of operating costs and follows best practices established by the Government Officer's Association. Significant revenue shortfalls caused by downturns in the economy can result in the use of fund balance to supplement recurring revenue to maintain services. Having fund balance to call on during the recessions or downtowns reaffirms the importance of having an adequate reserve. 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 FY10, FY16 and FY17 the percent of unbudgeted fund balance has remained at the high end of ranges set by City policy leading to a positive rating.

EMPLOYEES PER 1,000 CITIZENS



Formula: Number of Municipal Employees / Population / 1000

What Does Employees per 1,000 Citizens Measure?

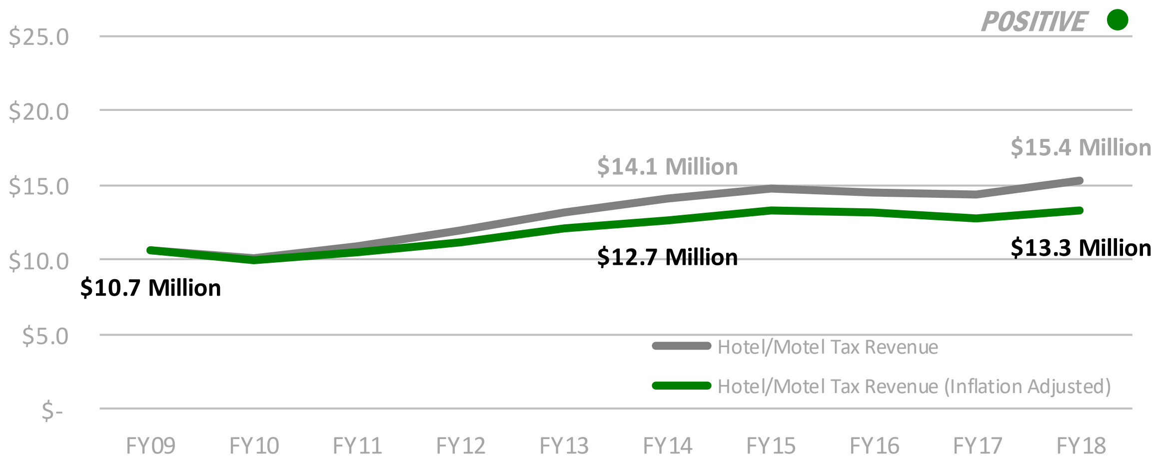
Personnel costs are a major portion of a local government's operating budget, therefore plotting changes in the number of employees is important for estimating trends that can affect expenditures. Changes in the number of employees can be an indicator of whether expenses are going to grow faster or slower than population, assist in determining if government is becoming more, or less, labor intensive, and if personnel productivity is increasing or decreasing.[4]

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

Why is This Important to Oklahoma City?

The number of employees per 1,000 citizens provides a quantitative measure of government efficiency, while citizen satisfaction provides a qualitative measure of government efficacy. Population grew 6% over the past 5-year period and the number of employees grew 2.8%. Although employee count grew at a slower pace, the ratio remained steady resulting in a neutral rating. To ensure that the ratio of employees to population is sufficient to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The national average for citizen satisfaction with city services in other large cities (250,000+) in the U.S. was 45%. The most recent citizen survey, completed in August 2018, reported 62% of citizens were satisfied with city services; well above the national average. The FY19 rating of 62% improved from last year's rating of 57% but was lower than 5-years ago when 66% of citizens were satisfied and lower than 10-years ago when 71% were satisfied. Although we out-performed the national average we lost ground from our previous ratings. Had citizen satisfaction remained steady or improved it would have pushed this indicator to a positive rating.

HOTEL TAX



Formula: Hotel Tax / CPI

Why is Hotel Tax an indicator for Financial Performance?

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

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

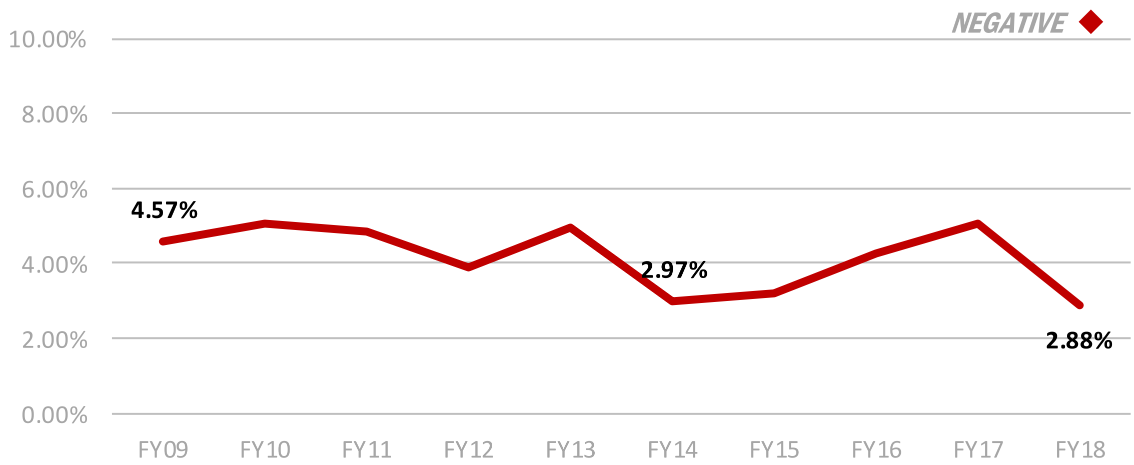
Why is This Important to Oklahoma City?

Hotel Tax for Oklahoma City saw a decline of 1% in FY16 and 1.5% in FY17 as the local economy was impacted by the energy sector contraction. In FY18 growth was 7.1% as more rooms were added to the market and occupancy rates remained steady. In terms of inflation adjusted dollars, Hotel Tax revenue grew 4.82% over the last 5-years and 25.03% over the last 10 years. The strong recovery from the FY09 and FY10 recession, a slight impact from the energy sector contraction in FY16 and FY17, growth in FY18 and growth over the five-year period, after adjusting for inflation, led us to assign a positive rating for this indicator.

Current Year Activity

Hotel Motel Tax had grown 4.9% through December 2018.

GRANT REVENUES



Formula: Grant Revenues / Operating Revenues

What are Grant Revenues?

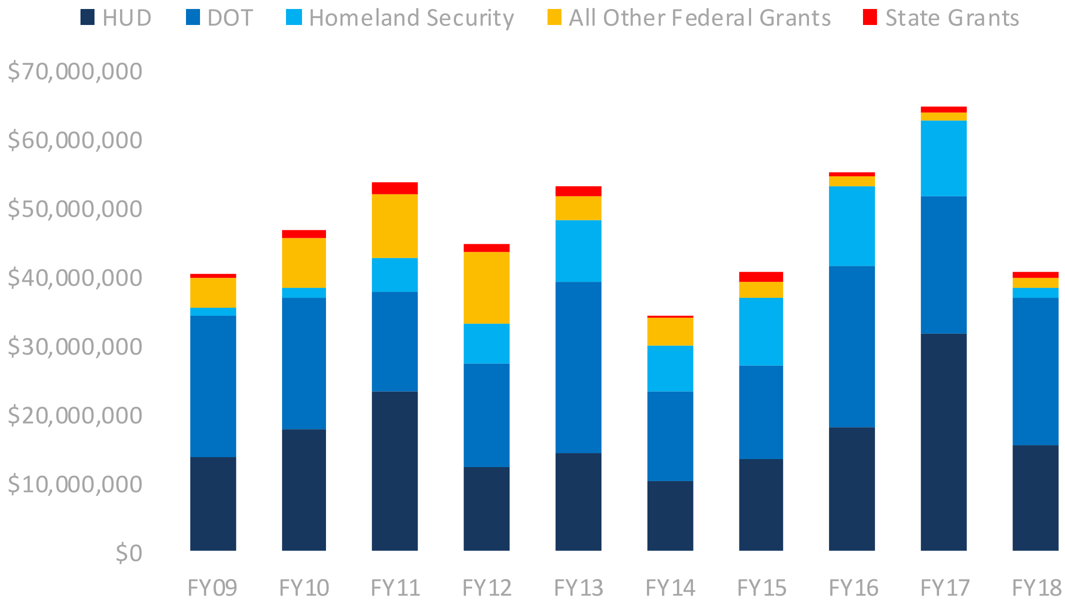
Grant revenues generally come from state and federal agencies for specific purposes. An overdependence on grant revenues can be harmful – especially during economic downturns when Federal and State governments struggle with their own budgets. Nevertheless, a municipality may want to maximize the use of grant revenues consistent with its service priorities.[5] The primary concern is to understand the local government's vulnerability to reductions of such revenues and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

Why is This Important to Oklahoma City?

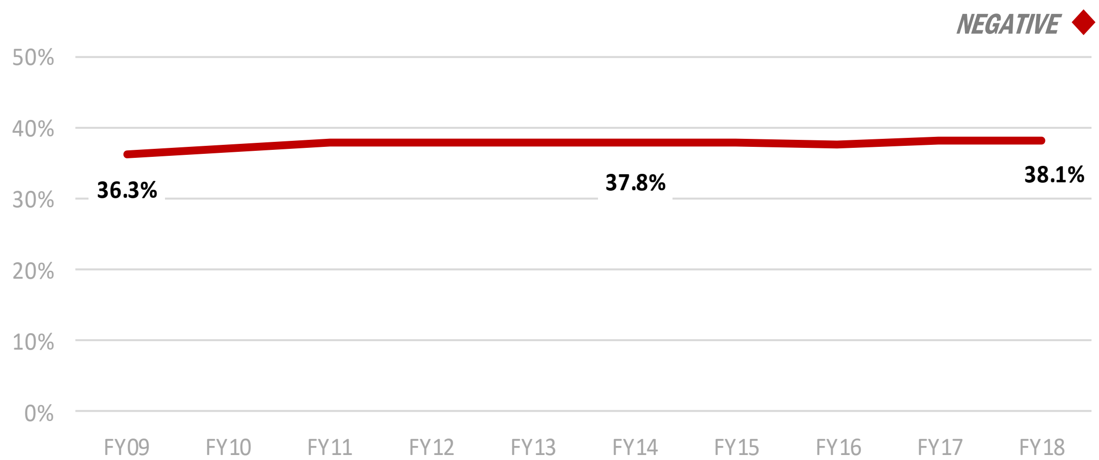
Without grant funds, many of the social services and capital project programs funded by the grants would cease. Some grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. Grant revenues, as a percentage of operating revenues, typically remains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

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

Grant Revenue by Granting Agency



FRINGE BENEFITS

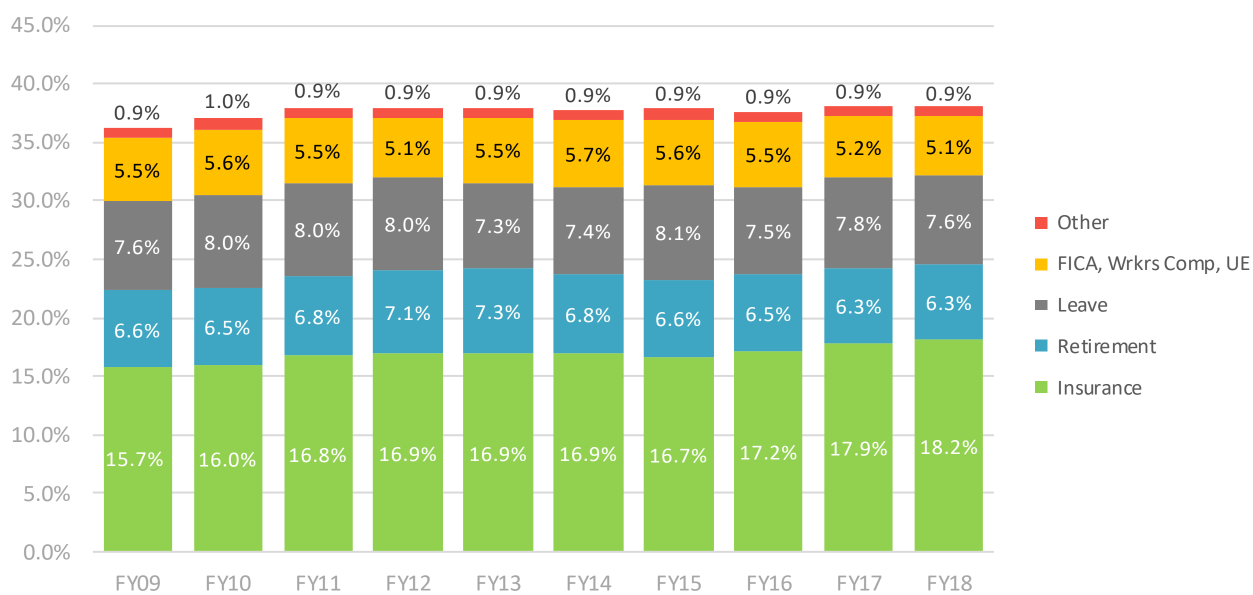


Formula: Fringe Benefit Expense / Compensation (Benefits + Pay)

What are Fringe Benefits?

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

Oklahoma City Fringe Benefit by Type



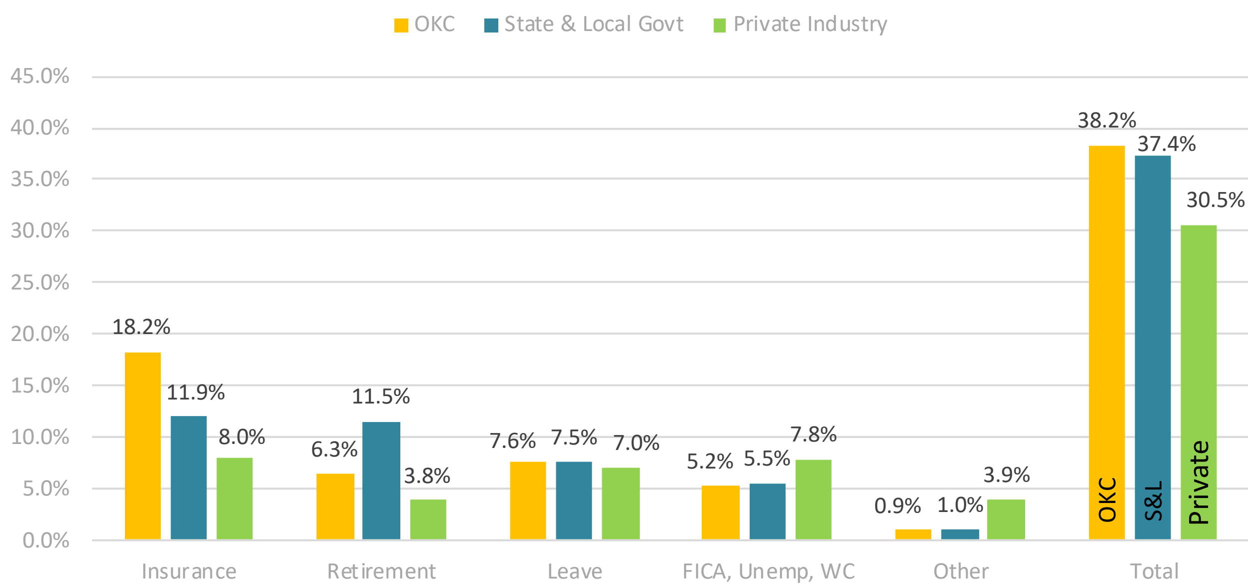
Why is This Important to Oklahoma City?

Benefits are a significant share of operating costs and are more than 1/3 of employee compensation. In the General Fund, insurance is the second largest budgeted expense and is 10% of the FY19 expenditure budget. Staff has worked to keep benefit cost increases from growing too fast through initiatives such as higher co-pays on health plans, additional premium sharing and an employee medical clinic to provide primary care services. The analysis included contributions made for retiree health insurance as a fringe benefit. Post -

employment health insurance is currently made primarily on a pay-as-you-go basis. This differs from advance funding, which is the method used for pension contributions. The pay-as-you-go basis only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. Fringe benefit expenditures, as a percentage of total compensation, have been increasing, and were higher when compared other state and local governments and the private sectors resulting in a negative rating for the indicator.

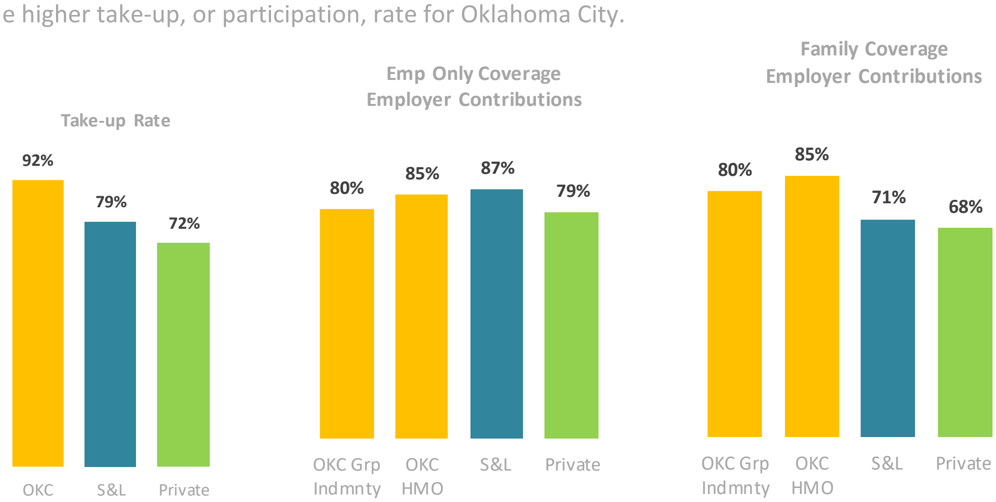
How Oklahoma City Compares

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



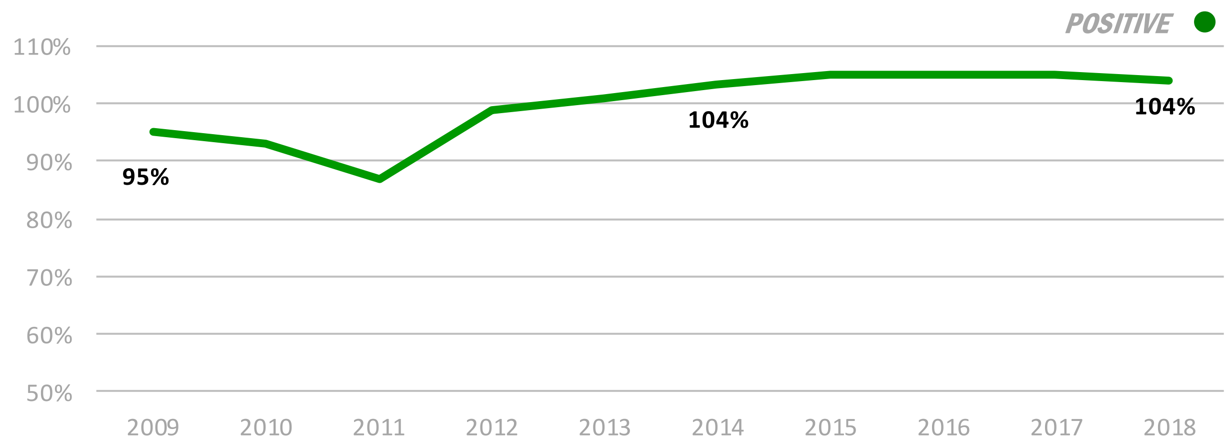
A Closer Look at Insurance

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



PENSION FUNDING RATIO

Oklahoma City Employee Retirement System (OCERS)



Formula: Ratio Provided and Calculated by Pension Plan Actuaries

What is the Pension Funding Ratio?

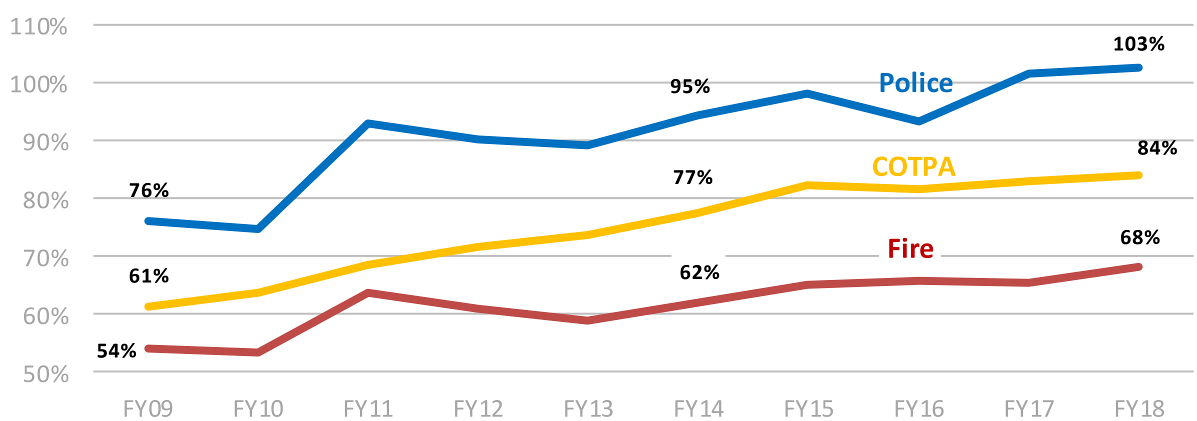
The funding ratio for a pension measures the funding progress of the plan by expressing the actuarial value of assets as a percentage of the actuarial accrued liability. A pension is fully funded if this ratio is equal to or greater than 100%. For those plans that are not fully funded, this ratio should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

Why is This Important to Oklahoma City?

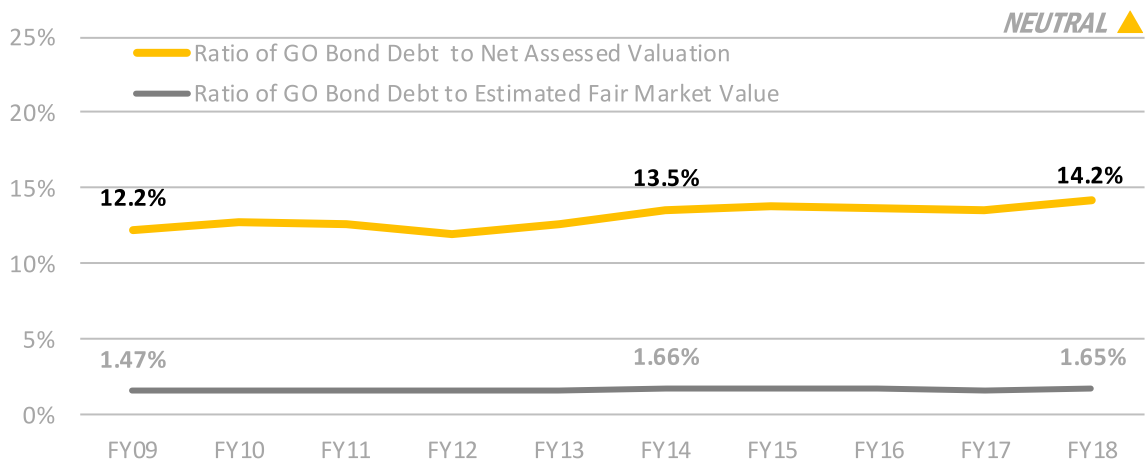
The Oklahoma City Employee Retirement System (OCERS) is the primary pension system for many City employees. Fire and Police uniform employees are covered by state-operated pension systems and Central Oklahoma Transit and Parking Authority employees are covered by a separate pension system. In calendar 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 funding above 100% for the last five years the indicator is rated as positive. The City continues to make the actuarially recommended contributions to OCERS.

Other Pension Systems

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



LONG-TERM DEBT



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

How is Long Term Debt Measured Here?

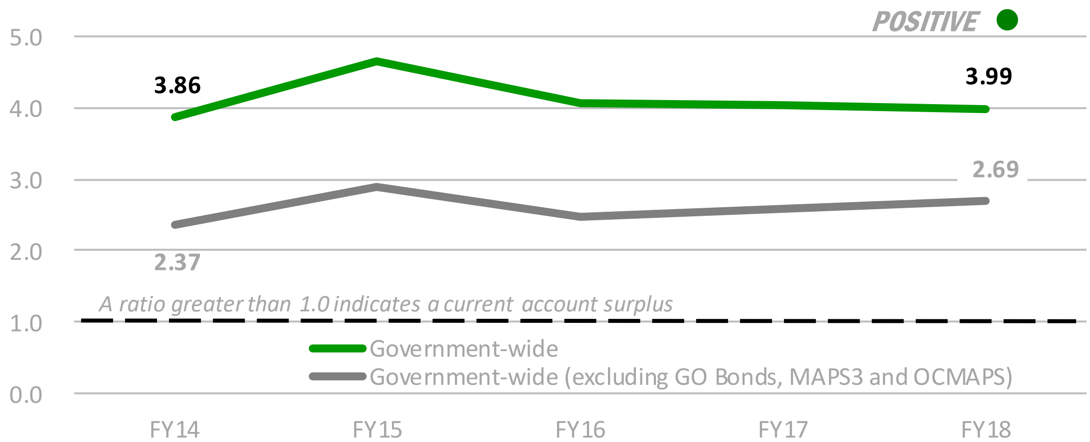
Long term debt for this analysis is the ratio of General Obligation Debt Outstanding as of June 30th to the Net Assessed Valuation. The General Obligation Debt Outstanding as of June 30th is simply the amount of long-term debt for which the government has pledged its full faith and credit divided by the net taxable assessed value of the property in the jurisdiction. An accelerated debt issuance can overburden a municipality; however, the credit rating industry also recognizes that a low debt ratio may not always be a positive factor since it could indicate underinvestment in capital facilities and public infrastructure.[6]

Why is This Important to Oklahoma City?

Oklahoma City's long-term debt ratio has gradually increased from 12.2% to 14.2% over the last 10 years as lower interest rates allowed more bonds to be sold, which resulted in more projects completed. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than $110 million for streets. Although debt grew slightly faster than net taxable assessed value over the five-year period the mill levy remained below the informal policy of 16 mills and therefore, the long-term debt ratio of 14.2% in FY18 is viewed as being stable as a percentage of assessed valuation and is rated as neutral.

The second indicator in gray is not rated and was added to track the General Obligation Debt as a percentage of the City's Estimated Fair Market Value of taxable property. While similar to Net Bonded Debt, this measure divides General Obligation Bond Principal Outstanding as of June 30 (excluding reserves) by the Estimated Fair Market Value of the City's Taxable Property. Fair Market Value is not capped like Net Taxable Assessed Value so this measure helps track the debt burden set in the City's Debt Policy 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.

LIQUIDITY



Formula: Cash and Current Investments / Current Liabilities

What is Liquidity?

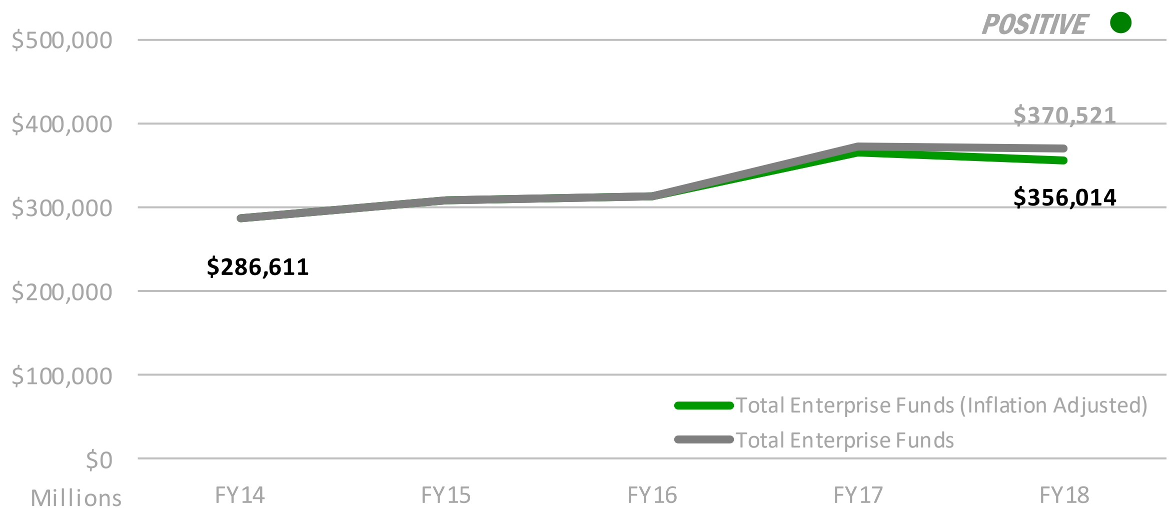
A local government's cash position, or liquidity, determines its ability to pay short-term obligations and serves as a good indicator of short-term financial condition. Liquidity is the ratio of cash, cash equivalents, and current investments to current liabilities. A cash shortage is the first sign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

Why is This Important to Oklahoma City?

During the last five years, the liquidity ratio has remained around 4.0 indicating a current account surplus.[7] In FY14 the ratio began to decline slightly each year due to completion of planned capital project. 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 with assets growing faster than liabilities, providing insight into the cash position for operations. The more "practical" liquidity rate was 2.69 in FY18 indicating that operational funding is also very healthy.

ENTERPRISE WORKING CAPITAL



Formula: Enterprise Working Capital = Current Assets – Current Liabilities

What is Working Capital?

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

Why is This Important to Oklahoma City?

Working capital at $356 million, inflation adjusted, and a liquidity ratio of 2.28, 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 24% and the liquidity ratio remained well above the desired level of one, indicating a positive trend.

1 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, 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.
4 Nollenberger 16.
5 Nollenberger 32.
6 Nollenberger 26.
7 Nollenberger 41.
8 Nollenberger 23.
9 Nollenberger 51.
10 City of Oklahoma City Comprehensive Annual Financial Report, 2018.
11 City of Oklahoma City Comprehensive Annual Financial Report, 2018.
12 Nollengerger 79.
13 City of Oklahoma City Comprehensive Annual Financial Report, 2018
14 City of Oklahoma City Planning Department.
15 Nollenberger 120.
16 City of Oklahoma City Statement of Debt Service Fund and Requirements for Ad Valorem Tax Levy, 2018
17 Price Edwards Oklahoma City Mid-Year 2018 Office Market Summary http://www.priceedwards.com/sections/market/downloadSecureFile.php?id=53
18 Wilmoth, Adam. “Oil industry’s significance returns to 1982-levels”, The Daily Oklahoman 16 Jan 2014 Print
19 Baker Hughes Rig Counts. January 2018 http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm
20 City of Oklahoma City Public Works Department, 2018

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

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 95.

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

EARLY WARNING SYSTEM

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

Highlighted Issues. Issues that have a significant impact on services provided to citizens, City operations, or funding sources are highlighted for additional attention and begin on page 100. This year we are highlighting eight major issues for additional attention. Some of the eight are cross-cutting issues that impact multiple departments, such as capital maintenance costs and employee recruitment, classification and compensation. The discussion on each issue includes the possible direction or next steps for the issue to stimulate conversation and action.

Department Issues. Overall, there are a total of 47 issues that departments are facing, including the eight major issues highlighted. Also included is a narrative from each department that provides a short description of the most critical issues they are facing over the next five years. A complete list of the issues can be found on pages 108-109.

LONG-TERM REVENUE ENHANCEMENT

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

SUCCESSFUL OUTCOMES

GO BOND PACKAGE

DEPARTMENT:
Various

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

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

STATUS:
Passed by voters, September 2017.

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

COST:
$967 million

BETTER STREETS SAFER CITY

ONE CENT TEMPORARY TAX

DEPARTMENT:
Public Works, Parks, Planning

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

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

FUNDING SOURCE:
27-month penny sales tax

PROJECTED REVENUE:
$240 million

¼ CENT SALES TAX

DEPARTMENT:
Various

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

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

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

PROJECTED REVENUE:
$26 million annually

SUCCESSFUL OUTCOMES

BODY WORN CAMERAS

DEPARTMENT:
Police

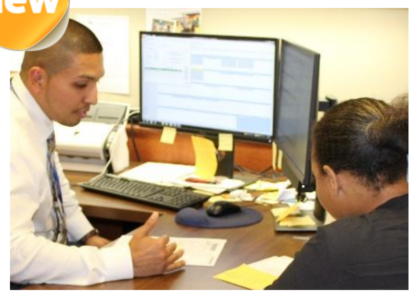
OVERVIEW:
By March of 2018, body worn cameras will have been issued to all patrol officers, gang enforcement and other uniform support units as a tool to document contacts with the public. The cameras capture video and audio recordings, which provide documentation and evidence of law enforcement activities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

new



COURT SERVICE LEVELS

DEPARTMENT:
Municipal Court

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

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

FUNDING SOURCE:
Municipal Court General Fund

COST:
$140,000 annually

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

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 customers 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

AICCM CONSTRUCTION

DEPARTMENT:
Finance

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

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

FUNDING SOURCE:
General Fund

COST:
$9 million

DEVELOPMENT CENTER

DEPARTMENT:
Development Services

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

STATUS:
Staffing levels increased by five in FY19

FUNDING SOURCE:
General Fund

COST:
$7.1 million
FY19 Development Center Budget

MAPS 3 OPERATING COST

DEPARTMENT:
Parks and Recreation, Public Transportation & Parking

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

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

FUNDING SOURCE:
General Fund

COST:
$6.8 Million Annually

SUCCESSFUL OUTCOMES

LIVE RELEASE RATE

DEPARTMENT:
Development Services

OVERVIEW:
The City achieved a 79% live release rate in FY18, a significant increase from 59% in FY14. Progress has been attributed lowering animal intakes through the community spay and neuter program, implementing managed intake and increasing the number of animals adopted or transferred out.

STATUS:
FY18 live release rate was 79%; FY19 target is 80%

FUNDING SOURCE:
General Fund, Donations, and Grants

COST:
$4.5 million
FY19 Animal Welfare Budget

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

SUNDAY BUS SERVICE

DEPARTMENT:
Public Transportation & Parking

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

STATUS:
Sunday service began January 27, 2019.

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

COST:
$1,475,000 annually

SUCCESSFUL OUTCOMES

RECYCLING PROGRAM

DEPARTMENT:
Solid Waste Utility

OVERVIEW:
The Solid Waste Utility implemented a new schedule in February 2018 that improved the efficiency of route collections and expanded the recycling program the following July. An additional 7,000 residential customers were converted to urban trash service and all customers received new green recycling carts. Two self-service pilot rural recycling depots were also established to extend recycling capabilities to remaining customers residing in rural collection areas.

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

FUNDING SOURCE:
OCEAT rate revenues.

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

WATER CONSERVATION

DEPARTMENT:
Water Utility

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:
Water Utility

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

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

- **Funding and Agreement for Operations and Maintenance.** After the AICCM is completed, the City will be responsible for the operations and maintenance of the AICCM. The City has executed a pre-opening agreement with the AICCM Foundation, but a post-opening agreement will need to be negotiated. The AICCM Foundation has committed to raising funds to provide for future operations. The OCEDT will manage the contracts with the AICCM Foundation.

- **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

LONG-TERM WATER CAPITAL

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 FY20-24 OCWUT water capital plan is $1.12 billion.

Wastewater Utility – Regulatory Compliance

The South Canadian Wastewater Treatment Plant's daily treatment capacity will be expanded from six to nine million gallons a day to meet projected growth needs. Due to findings of a Canadian River water quality study by the Oklahoma Department of Environmental Quality, the construction project will include additional treatment enhancements to meet more stringent wastewater discharge limits. The estimated cost of this project is $82 million. The FY20-24 OCWUT wastewater capital plan is $428.7 million.

Solid Waste Utility – Recycling Program

The Oklahoma City Environmental Assistance Trust will provide new and replacement carts to customers and purchase replacement collection equipment for the Solid Waste Management Line of Business at an estimated cost of $4.1 million per year. The FY20-24 OCEAT solid waste capital plan is estimated at $20.5 million.

POSSIBLE DIRECTION AND NEXT STEPS

- **Water and Wastewater 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.

- **Solid Waste Rate Adjustments.** Council approved a four-year rate plan beginning October 1, 2016 through 2019. Utilities staff is reviewing the long-term financial plan to assess operational and capital needs and recommend adjustments for future years.

HIGHLIGHTED ISSUE

MAPS 4

The City is now seeking the Public's thoughts on MAPS 4 and seeking input for transformational ideas that will propel the City forward. The MAPS programs are capital improvement programs to improve quality of life in Oklahoma City, funded by a series of limited term temporary penny sales taxes. It originally stood for Metropolitan Area Projects but is now known simply as MAPS. The first MAPS began in December 1993 and funded nine projects. MAPS FOR KIDS, was approved by voters in November 2001 and was earmarked for public school capital projects. MAPS 3 was approved by voters in December 2009 and funded eight projects.

Every time someone buys something in Oklahoma City, one penny for every dollar spent goes to the MAPS program. The length of the tax could be anywhere from two to seven years depending the final list of projects included in the ballot measure which is expected to be presented to voters in the fall/winter of 2019. A hallmark of the MAPS taxes has been to allow the funds to are accumulate until sufficient revenue is available to fund the identified projects. This funding plan allows the City to build major capital improvement projects debt free. Each program has been overseen by a volunteer board of advisors, which make recommendations to the City Council.

If MAPS 4 is approved by voters operating costs and future capital maintenance costs will need to be identified before the project is put into public use.

POSSIBLE DIRECTION AND NEXT STEPS

- **MAPS 4 Sales Tax Interest.** Interest on MAPS 4 sales tax collections could be set aside as a contingency fund in case tax collections fall short of projections with the balance used for future capital maintenance on MAPS 4 projects.

- **MAPS 4 Use Tax.** If a MAPS 4 Sales Tax is proposed and passed by voters, City Council could adopt an ordinance based on state statute that amends the City's use tax rate to be equal to the sales tax rate. In the past, the companion use tax has been used to provide a temporary funding source for public safety capital funding, but it could be used for future MAPS 4 capital maintenance. The Use Tax would only fund one option, public safety capital or MAPS 4 capital maintenance, so a decision and alternative funding source would need to be identified for the purpose not chosen.

- **User Fees, Sponsorships, Private Partnerships.** Depending on the types of projects approved, user fees or sponsorships could help fund operating costs. Private partnerships can also help with operating costs through membership fees, naming rights, and philanthropy.

HIGHLIGHTED ISSUE

PUBLIC SAFETY CAPITAL FUNDING

The City has used funding provided by temporary use taxes to fund Public Safety capital maintenance such as Police and Fire fleet replacement, in-vehicle mobile data computers (MDCS), and mobile and handheld radios. In FY19, the MAPS 3 Use Tax is expected to be depleted and funding of public safety capital maintenance will transition to the temporary Better Streets, Safer City Use Tax. The new funding stream is expected to generate $29 million over the 27-month collection period and fund capital maintenance through FY21. Both Police and Fire as staff sizes were increased with the passage of a permanent ¼ cent sales tax increase largely earmarked for public safety operations. The additional public safety staff will need vehicles, MDCs and radios which will put additional pressure on the Better Streets, Safer City Use Tax Fund. A funding source has not been identified to replace the temporary use tax fund once it is depleted.

POSSIBLE DIRECTION AND NEXT STEPS

- **MAPS 4 Use Tax.** If a MAPS 4 Sales Tax is proposed and passed by voters, City Council could adopt an ordinance based on state statute that amends the City's use tax rate to be equal to the sales tax rate. This would again provide a temporary funding source for public safety capital funding which would limit the ability to set aside funding for future MAPS 4 capital maintenance.

- **General Obligation Bonds.** Maximizing the use of property taxes for public safety fleet replacement through General Obligation Bonds may be an opportunity to reduce pressure on use tax funds.

- **Support State Efforts to Expand Sales Tax Base.** Expanding sales tax to services that are currently exempt under State Law would generate additional revenue.

- **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 judgements.

- **General Fund Support.** The General Fund would have additional pressure to fund public safety capital maintenance.

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

The relaunch and rebranding of Oklahoma City's bus system in 2014, combined with the anticipation of the Oklahoma City streetcar, has ignited community interest and increased expectations for public transportation to continue to improve and grow. City Council, being in step with the increased community interest and working to address the Council Priority to develop a transportation system that works for all residents, have acted over the last several years to begin transforming the City's public transportation system by supporting bus route frequency enhancements, the addition of night time bus service and the launch of Sunday fixed route bus service which has not existed for at least 40 years.

To ensure the viability and continued transformation of the City's public transportation system in the coming years, emphasis must be placed on continuing to enhance existing services. New transit options leveraging both traditional modes of transit as well as modern, technology-based mobility services such as micro transit, should be implemented. Traffic signal priority and integration of automated safety systems will make existing and future service better. Resources must also be committed to maintaining a state of good repair for transit facilities and equipment in accordance with the final federal rule published in 2016 (49 CFR Parts 625 and 630).

To continue the transformation of public transportation available to Oklahoma City residents, further implementation of existing transit plans should continue. Recommendations from the consultant lead Transit System Analysis conducted in 2013 that still need to be implemented include high frequency corridors, transit service to the airport, and new routes; all of which require additional vehicles. The study also suggests expanded night service which can be accomplished with the existing fleet size but requires more operating funds. Bus Rapid Transit (BRT) identified in the Fixed Guideway study should continue to move forward to best position Oklahoma City to benefit from a future regional transit model; the City's first bus rapid transit line is expected to be operational at the end of FY23 and will connect downtown with northwest Oklahoma City. The existing Oklahoma City Streetcar should be completed in its entirety and expanded to additional neighborhoods and business districts. Finally, to effectively adapt to mobility options of the future and integrate state of the art public transit options within the community, a new public transportation long range plan is needed. A new long-range plan would be a multiyear process requiring a significant up-front investment to position Oklahoma City for the future mobility of its residents.

POSSIBLE DIRECTION AND NEXT STEPS

- **Implement Bus Rapid Transit.** Oklahoma City received a $14.3 million federal grant to develop a bus rapid transit line between downtown and the northwest side of the City. The line will connect to the Streetcar and Downtown Transit Center and then follow Classen Boulevard north to Northwest Expressway and then west to Meridian Avenue. The City will match the Federal Grant award with $10.8 million in bond funds and $2.2 million in Better Streets, Safer City Sales Tax proceeds which will approved by voters in 2017. The new services is expected to begin at the end of FY23 with an annual operating cost of $3.5 to $4.0 million, which staff is still refining.

- **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, if approved by voters, could result in increases in local funding for transit operations.

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, but it is near depletion and a new funding source will be needed to fund capital maintenance for 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 about 20 years and need capital maintenance that is beyond the remaining fund balance from the MAPS Use Tax.

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.

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

POSSIBLE DIRECTION AND NEXT STEPS

- **General Fund.** In March 2018 City Council adopted Budget and Financial Planning Policies that included an update to capital expenditures setting a target to budget 1-3% of the General Fund for such expenses. In FY19, Capital maintenance and fleet replacement was budgeted at $5.75 million or 1.25%.

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

- **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 are currently added to tickets sold at the Cox Convention Center, Chesapeake Energy Arena, Chickasaw Bricktown Ballpark, and the Civic Center.

- **MAPS 4 Use Tax.** If a MAPS 4 Sales Tax is proposed and passed by voters, City Council could adopt an ordinance based on state statute that amends the City's use tax rate to be equal to the sales tax rate. This could provide a temporary funding source for capital maintenance of facilities or public safety capital funding. A choice between the two purposes would need to be made as use tax would not be able to fund both purposes.

HIGHLIGHTED ISSUE

EMPLOYEE RECRUITMENT, CLASSIFICATION AND COMPENSATION

The National Unemployment rate fell to 3.7% in September 2018 and was the lowest jobless rate since December of 1969. Nationally the rate of unemployment to open positions is at a 17-year low, indicating more demand for workers that are currently available. While a low unemployment rate is a sign of a strong economy there are downsides to employers such as high employee turnover, the need to increase wages and benefits to compete for talent, increased training budgets, more time to fill positions, and impacts on service delivery while positions are vacant. Compounding the problem, are remnants of past budget reductions where staff sizes were reduced which is also impacting service levels and daily operations.

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

POSSIBLE DIRECTION AND NEXT STEPS

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

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

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

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

HIGHLIGHTED ISSUE

OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

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

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

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

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

POSSIBLE DIRECTION AND NEXT STEPS

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

DEPARTMENT LIST OF FORECAST ISSUES

Department	Issue	Facility	Fleet	Personnel	Services	Materials	Page No.
Airports	Construction of Additional Public Parking	●					102
	Maintain and Improve Existing Building Systems and Aging Infrastructure	●					102
	Terminal Expansion and Building Improvements	●					102
Auditor's Office	Contracted Information Systems Audits				●		103
City Clerk's Office	Increased Demand for City Clerk's Information Program			●	●		103
	Agenda Management Mobile Access and Voting System				●		103
	Operation of New Archives and Records Facility	●		●		●	103
Development Services	new One-Stop Development Process	●		●			104
	new Improving Animal Welfare Field Services Responses		●	●			104
Finance	new American Indian Cultural Center and Museum (AICCM)	●			●		92
	Facility Capital Maintenance Cost	●			●	●	97
	Other Post-Employment Benefits (OPEB) Liability			●			99
Fire	Facility Capital Maintenance	●			●	●	105
	Minimum Staffing Levels			●			105
	new Public Safety Capital Maintenance		●		●	●	95
General Services	Facility Asset Management	●		●		●	105
	Sidewalk Improvements for Americans with Disability Act (ADA) Compliance				●	●	106
Information Technology	Increasing Demands for Cyber Security			●	●	●	106
	new Public Safety Capital Maintenance		●		●	●	95
Municipal Counselor's Office	new Increased Tort Claims and Expungement Cases			●	●		106
	new New Software to Improve Operations				●		107
Municipal Court	new Alternative Court Appearances			●	●	●	107
	new Shared Information Between Agencies				●		107
	new Text Notification and Kiosk Payments			●	●	●	107
Parks and Recreation	Capital Maintenance	●		●	●	●	108
	Infrastructure Improvements	●					108
	Operating Costs for New Parks and Recreation Elements			●	●	●	108
	new Cultural Change			●	●	●	108

DEPARTMENT LIST OF FORECAST ISSUES

Department	Issue	Facility	Fleet	Personnel	Services	Materials	Page No.
Personnel	Healthcare Reform			●	●		109
	Occupational Health Clinic	●				●	109
	Retiree Health Benefits - OPEB Liability			●			99
	Employee Recruitment, Classification and Compensation			●	●		98
Planning	Housing and Community Development			●	●		109
	Plan Development and Implementation			●	●		110
Police	Police Facilities	●					111
	new Public Safety Capital Maintenance		●		●	●	95
Public Information and Marketing	new Accessibility and Responsiveness to an Increasingly Diverse Population			●	●		112
	Channel 20 Equipment Replacement					●	113
Public Transportation and Parking	Bus Stop Improvements				●	●	113
	new Changing Dynamics of the City's Off-Street Municipal Parking System	●					113
	Public Transportation System Improvements	●	●	●	●	●	96
Public Works	Capital Maintenance of Bridges and Drainage Infrastructure	●			●		114
	new Citizen Responses			●			114
	new Street Improvement Projects Delivery			●	●		114
Utilities	Water Utility – Water Supply	●			●	●	93
	Wastewater Utility – Regulatory Compliance	●					93
	Solid Waste Utility –Recycling Program					●	93

AIRPORTS

Maintain and Improve Existing Building Systems and Aging Infrastructure

Some of the building systems and infrastructure at Will Rogers World Airport (WRWA), Wiley Post Airport (WPA), and Clarence E. Page Airport (CEP) are original and date back to the 1960s. The continued development at the City's three airports is beginning to strain key infrastructure such as storm drainage systems, building systems, and various pavements. Aging building systems and facilities are continually evaluated to determine required maintenance, replacement or disposal. A current priority project is evaluating the WRWA's ingress and egress roadways to the terminal building. This project currently has a consultant on board for a study. The terminal's upper level passenger drop-off bridge deck is currently undergoing repairs.

Construction of Additional Public Parking

Passengers seem to prefer garage parking given Oklahoma City's propensity for severe weather and airport staff continues to track the percentage of public garage parking that exceeds 85% of capacity. In FY17 and FY18, parking exceeded 85% capacity by 72% and 75% respectively. Garage parking between 80% to 84% of capacity in FY17 and FY18 was 11.51% and 10.41% respectively. The growth of Transportation Network Companies (TNC), sometimes known as mobility service providers (MSP) or ride-hailing services, has had an impact. In the last three years parking transactions in all facilities dropped 3.70% even though passenger enplanements increased year-over-year. While garage parking is a preference for many customers, constructing a third parking garage with dedicated vehicle ramps may not be financially feasible. An additional garage would most likely not generate a significant number of new customers, but only relocate surface lot parkers to the garage. Even though garage parking does reach full capacity at times, 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.

Terminal Expansion and Building Improvements

Will Rogers World Airport has been steadily growing by 2.39% on average for the last five years. In FY17 and FY18 these increases were 0.55% and 10.10% respectively. The addition of three new airlines since July 2015, has resulted in a lack of available gates for future airline expansion in the terminal building. This combined with new nonstop destinations, increased flight frequency, and a significant increase in boarding passengers necessitated an expansion of the terminal building. Along with additional space for airline growth, the expansion will address new requirements for passenger and baggage screening as well as the addition of new circulation space where capacity is constrained. The overall goal is to improve customer service and convenience. The project adds an additional 133,022 square feet of new terminal space and renovates 43,473 square feet of existing terminal space. The main components of the project provide for the construction of a four-gate concourse with increased hold room seating and new passenger boarding bridges to increase the total departure gate count to 21, a mezzanine level circulation deck area, a centralized passenger security screening checkpoint, a large separate hold room area for international or diverted flights, administrative office space, additional concession space (food and retail), technology improvements, and an area for a future customs inspections facility. Public artwork will be procured and integrated into architectural elements of the building. The project will also renovate existing space to expand greeter lobbies and public circulation areas and include new furniture and fixtures for the new and remodeled areas. The project is estimated to cost approximately $92.1 million including contingencies and is anticipated to be funded with the Thirty Third Series Bonds and Trust Revenues which includes Passenger Facility Charges.

AUDITOR'S OFFICE

Contracted Information Systems Audits

Information systems are critical to citywide operations such as purchasing, human resources, and payroll, and 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 contracted information systems audit experts.

CITY CLERK'S OFFICE

Increased Demand for City Clerk's Information Program

The number of record requests continues to increase at a rate of 30% annually. Last fiscal year there were over 1,250 meeting notices and agendas posted and 5,000 responses to requests for records sent. To meet the demand for timely responses to information requests, efficiencies must be gained through a combination of additional staff in the City Clerk's Office, use of staff from other departments to assist in responses, and additional technology enhancements or software to further automate the process. A new web-based service was approved as part of the FY19 budget that will help manage and track public records requests.

Agenda Management Mobile Access and Voting System

Council authorized staff to begin negotiations for a new Agenda Management Software system in July 2018. To further develop the electronic capabilities of the system and reduce the dependency on paper and staff, additional enhancements have been identified that are not included in the current contract negotiations. 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 phones and tablets. Electronic access for board members gives them access to Agenda and packet materials from tablets with the ability to bookmark and make notes without printing the materials. A voting information system will automate the process of board members making motions, voting on items, and provide features to manage public speakers. This information will then integrate with the minutes application reducing the manual entry required to produce the minutes document. These additional enhancements are available and could be phased in over the next few years.

Operation of New Archives and Records Facility

The 2017 Bond Authorization included a new city archives and records facility to be located at the Central Maintenance Facilities Complex. The project is 10,000 square feet of storage and office space that will have the capacity to securely store records on a short and long-term basis. Public Works projects the facility to be part of the 2021 bond sale. The bond authorization will fund construction of the facility, but additional resources will be needed to equip and operate the facility. Data storage will require computers, shelving, archival boxes, office furniture, and additional records management staff for successful operation of the facility.

DEVELOPMENT SERVICES

One-Stop Development Process

The current development process requires customers to make contact at up to six different locations to get their project permitted. These include Subdivision and Zoning, Plan Review (also Permits and Licensing), Engineering, Fire, Utilities and Traffic. While all these offices except for Fire are located at 420 W. Main, they are located on different floors. Customers may have to make several trips to these different locations before obtaining approval. In FY17, Development Services implemented a take-home vehicle program for construction trade inspectors in the Development Center. This freed up space previously used to office 36 inspectors. By remodeling space vacated by the inspectors on the 8th floor of 420 W Main, Development Services believes it can provide office space for all development review functions. Locating the different review functions in one location would consolidate the process of land development and permitting assistance. Providing applicants one location to visit, submit applications, ask questions and receive results on development applications has been successful in many Cities throughout the country.

Improving Animal Welfare Field Services Responses

Currently, Animal Welfare is budgeted for thirteen Animal Welfare Officer II positions and two Animal Welfare Officer III positions. Animal Welfare Officer IIs handle routine calls for service in the field and Animal Welfare Officer IIIs are primarily responsible for handling cruelty investigations. All these officers work 8:00 a.m. – 5:00 p.m. on their scheduled days to work. Officers are scheduled seven days a week, 365 days a year. One officer is on-call each night to handle emergency calls outside of the regular shift hours, with a second officer serving as backup when needed. Animal Welfare has identified ten districts that need coverage to maximize efficiency and give sufficient service for field requests. The current schedule has four days each week when it is not possible to meet this demand. Currently, officers are responsible for much larger areas, which decreases the overall number of calls they can respond to and increases response times. Increasing the number of Animal Welfare Officer II positions by four and adding an Animal Welfare Supervisor position would allow for enough staffing to assign an officer to each of the ten districts daily. This would increase the number of call responses; improve response times; and allow for the implementation of menacing, dangerous and stray dog program. These positions would also allow for the assignment of shifts beyond the current 5:00 to 9:00 p.m. daily shift. On-call officers would continue to available after 9 :00 p.m.

FINANCE

American Indian Cultural Center and Museum *(Highlighted Issue – Page 92 for additional information)*

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

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

FIRE

Facility Capital Maintenance
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 modern standards. 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 General Obligation (GO) Bond Authorization. In addition, some of the major suggested repairs, including some HVAC and roof replacements are completed or in progress. 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.

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 289 personnel is required day (227 personnel to staff apparatus and 62-day off slots). 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 227 can be met. The overtime of calling firefighters back to work is becoming an increasing burden on the operating budget.

Public Safety Capital Funding *(Highlighted Issue – See Page 95 for additional information)*

GENERAL SERVICES

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 86,630 square feet per FTE. The number of facilities has increased by seven 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, and 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 older existing buildings. BMD will still be responsible for a level of maintenance on those buildings that have been replaced until they are sold or demolished. Staffing shortages due to vacancies, the inability to recruit qualified applicants, and continued budget reductions will continue to contribute to under-staffing. BMD could potentially lose 40 % of its current staff through retirements during the next five-year period and this will adversely affect the 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 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.

Sidewalk Improvements for 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 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 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 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, services and places of public accommodation. There has been significant activity in the last 12-24 months with funding for improvements secured through GO Bonds, the Better Streets Safer City Sales Tax and MAPS 3 Sales Tax funds. It could take up to ten years to fully implement ADA compliance at all transit stops; although at the end of calendar year 2018, approximately 20% of the 1,342 transit stops were fully ADA compliant. ADA compliance at transit stops will help achieve the City Council's priority of *"Developing a Transportation System that Works for All Citizens".*

INFORMATION TECHNOLOGY

Increasing Demands for Cyber Security
Cyber security is one of the highest priorities for the IT Department as it protects City systems and data. As technology usage expands in the City and data moves to on-line cloud storage, the operational complexity to maintain security increases. Additionally, cyber threats continue to increase and become more sophisticated. The IT Department has lost 50% of the staff from the Security Program in the last year. The availability of highly skilled individuals is very low. IT anticipates struggling with hiring and retaining knowledgeable and experienced cybersecurity staff over the next five years. To better address this issue, IT has worked with Personnel to create specific job titles and ranges for technology security positions to be included in the next compensation study. The demands for this critical staffing need may exceed the capacity of the annual budget.

Public Safety Capital Funding *(Highlighted Issue – See Page 95 for additional information)*

MUNICIPAL COUNSELOR'S OFFICE

new

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

New Software to Improve Operations

Currently, the Municipal Counselor's Office has no method to effectively track work electronically. A review has begun of case/issue/time management software packages, which will assist in effectively organizing case files, project files, assessing and managing workload, and reporting of work product to City and Trust clients.

MUNICIPAL COURT

Alternative Court Appearances

Municipal Court is currently working with the Homeless Task Force in conjunction with the Homeless Alliance to determine the best approach to assist defendants that are homeless. There have been discussions to hold court hearings at Homeless Alliance to eliminate barriers to attending court. If this program is implemented, there will be additional costs associated with staffing, hardware, software and maintenance.

Municipal Court has worked jointly with the Oklahoma City Police Department to reduce the Oklahoma City inmate population in the Oklahoma County Jail. However, there is a small percentage of jailed habitual offenders who have mental health and/or substance abuse issues and do not return to court. Municipal Court is exploring the use of a day reporting program for individuals that are not eligible for an own recognizance bond but need treatment services. This service would allow defendants to be evaluated for eligibility and court ordered into the day reporting program as a condition of their release. The program would offer daily monitoring services, treatment services, and medication management to aide in their recovery and sustainability in the community. The program will further reduce the number of Oklahoma City inmates in the Oklahoma County Jail.

Shared Information Between Agencies

The Oklahoma County Criminal Justice Advisory Council has identified the need for multiple jurisdictions and agencies to share criminal justice information. This will require Municipal Court to develop an interface between its current software, Incode, and the shared technology solution.

Text Notifications and Kiosk Payments

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

Municipal Court would also like to offer self-service kiosk payment options in convenient locations throughout Oklahoma City. This service will make it easy for customers to pay their fines without appearing in person at Municipal Court. The cost would be $1.50 per transaction under the current City contract plus interface development costs to allow the payments to post in Incode.

PARKS AND RECREATION

Capital Maintenance

Many of the City's recreation centers, aquatic facilities, gardens, senior centers, and the Bricktown Canal are in immediate need of improvements. In FY19, a Facilities Asset Manager was added to inventory and manage the department's facilities. The Facilities Asset Manager will be developing a comprehensive assessment of all facilities with the goal to identify conditions and recommendations for capital maintenance. Many of the capital needs are expected to include repairs of roofs, plumbing, electrical, floors, and signage. that if addressed timely, will extend the usefulness of the facility. These types of capital maintenance needs typically fall short of major improvements that would be funded through General Obligation Bonds but exceed the capacity of the annual budget. An annual capital maintenance budget for Parks is needed to ensure facilities are safe and operating effectively.

Infrastructure Improvements

Several parks facilities and athletic fields have limited programmable space and usability that meet current trends and needs. By strategically targeting these smaller facilities and athletic fields for renovations or replacing them with regional recreation centers that include aquatic facilities and athletic complexes, the department could increase the ability to serve more of the City's population. The large regional centers would complement the MAPS 3 Senior Health and Wellness Centers and 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 a growing population of senior adults, these centers would promote quality recreational, cultural opportunities and healthy living. Convenient, attractive and relevant options for citizens can only be provided if our parks, open spaces, athletic fields, and recreational facilities are well maintained and located in centralized areas of the City.

Operating Costs for New Parks and Recreation Elements

As Oklahoma City plans for the construction of their first regional health/wellness/recreation center and continues to add new and exciting elements of recreational opportunities for citizens, ongoing operations and maintenance dollars for those new elements will need to be added proportionately to the operating budget as capital projects are completed.

New elements without appropriate budget allocations exacerbate financial pressures to continually provide outstanding services to Oklahoma City residents. In the 2018 Citizen Survey, citizens established their top two opportunities for improvement in the Parks Department as maintenance of city parks and quality of city parks near neighborhoods.

new

Cultural Change

Modern Parks and Recreation is evolving to encompass a much broader societal responsibility to social equity, diversity, quality of life, health and wellness, conservation, and building stronger communities. Parks and Recreation serves as the foundation provider of a community's physical, social, economic, and environmental viability and provides neighborhoods with attractive and safe green spaces. The Oklahoma City Parks and Recreation Department is committed to meeting the citizen's demands for an enhanced quality of life but is behind in shifting to the modern version of Parks and Recreation. The Department must strategically plan, communicate, and align with a changing culture, which will require the allocation of resources that exceeds the capacity of the current annual budget.

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

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 than non-medical files. As a result, additional storage will need to be acquired within the next four 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.

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

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

PLANNING

Housing and Community Development

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

The decline in federal funding has a tangible impact on the Planning Department's ability to meet and sustain a growing demand for neighborhood revitalization services. CDBG and HOME funding are the primary investment tools the City uses for revitalization activities that support the Council Priority of promoting thriving neighborhoods. Overall reduction in federal funding is expected to continue, leaving the Planning Department with an upcoming shortage of funds to cover personnel expenses. CDBG has increasing shortages in administrative funding over the next 5 years. For FY20, the projected final balance is $46,441, increasing progressively to a shortfall of about $180,000 in FY23. Some of this shortfall may be able to be offset by staff charging program delivery to specific projects, but this will decrease the amount available for project implementation.

- *Housing Rehabilitation*
  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 two years ago for whole house rehabilitation until the backlog can be addressed. The Department is also in discussions with the Oklahoma City Housing Authority (OCHA) about the possibility of city staff providing housing quality inspections on some OCHA projects, with charges to be reimbursed by OCHA. Due to these increased program activities, the need for an additional housing rehabilitation inspector position is envisioned soon. As federal funding is reduced, resources must be replaced and ultimately increased to address the growing problem. Additionally, the Department foresees additional demand on housing rehabilitation staff as the inspection and compliance roll increases for new projects funded under the new GOLT-Affordable Housing program.

- *Homelessness Program*
  The City established a Social Services Grant (SSG) program in FY04 with an annual general fund allocation of $121,000 for grant awards to help the neediest in the community. Annual grants are awarded to 15 service providers to aid a variety of programs including: homeless prevention initiatives; case management services for veterans, youth and the chronically homeless; housing location services for persons with AIDS; and assistance to healthcare providers who treat the homeless. The annual SSG budget has not changed since 2004, despite a significant increase in population, growing needs, and inflation. Funding projections for the homeless programs are of particular concern, due in part to the administrative costs allowed by the grants being insufficient to support staff-intensive work. The Emergency Solutions Grant program will experience progressively increasing shortfalls from FY21 ($16,667) to FY23 ($107,033). The Continuum of Care program will also experience increasing shortfalls from FY21 ($4,764) to FY23 ($133,645). Salaries for persons working these programs cannot be paid for by any other grant funds and there is no option to charge additional staff time to these grants. These are important programs that serve persons who are homeless or at risk of becoming homeless; general funds will be needed to supplement staff salaries in these areas. Increasing funding for social services in the amount of $350,000 annually would significantly boost the City's efforts addressing the needs of the most vulnerable people in our community.

Plan Development and Implementation

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

- *Major Update to the City's Development Codes & Subdivision Regulations*
  One of plan**okc's** highest priority recommendations that will have the greatest impact in addressing significant issues and needs is a major update of the City's development-related codes, subdivision regulations and development review process. The process of crafting the necessary code revisions in a manner that is accepted by all interests is a large, complex, and specialized process that requires significant stakeholder engagement in order to be successful. The Planning Department will dedicate significant staff resources to this effort, but anticipates the need to add an Assistant Planner, increase the department's budget for training, and contract with professional consultants to complete the project in phases over the course of the next 4-5 years. A consultant was hired in 2017 to complete the first phase of this process, which produced a code diagnosis and strategy to implement the remaining phases over the next four years through annual allocations of $250,000.

- *Update of Studies Supporting the Code Update and* plan**okc** *Maintenance*
  The Planning Department is charged with keeping plan**okc** current in order to maintain the effectiveness and applicability of the plan to guide the growth of the city. Many of the studies and surveys that supported the development of the comprehensive plan's land use typology areas and related policies were completed in 2012-2014. Several of these studies should be updated every five years so that staff can re-evaluate the effectiveness of the plan's land use typology areas and housing and land use policies as the city grows. An update to the Housing Market Study is needed to inform both the code update and the next bi-annual update of plan**okc**. Approximately $120,000 will be needed for the study in FY20.

- *Commercial District Revitalization Program*
  The Planning Department's Commercial District Revitalization Program (CDRP) focuses on revitalizing corridors and commercial areas by coordinating infrastructure and community development investment. The CDRP has evolved over the last decade into a valuable City resource that is producing tangible results in the community. As of FY19, the CDRP works with 12-15 districts and entities each year and continues to receive increased demands from the community for services, inclusive of organizational capacity funding and technical assistance. The number of districts the program supports has more than doubled since the program began with six districts in 2009; however, the budget for district funding has remained at $176,000 since FY13. For several years prior to FY17, districts requested funds that exceeded up to 30% of their annual budgeted amounts, which were supplemented through contingency funds. An increase in annual funding of $125,000 for each of the next three years would allow the program to adequately support existing districts through self-sufficiency and respond to demands for supporting new and emerging districts.

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 or a lease of appropriate space.

Public Safety Capital Funding *(Highlighted Issue – See Page 95 for additional information)*

PUBLIC INFORMATION AND MARKETING

new

Accessibility and Responsiveness to an Increasingly Diverse Population
The City would like to become more inclusive and diversify our boards, trusts and commissions which extends to expanding communication strategies. The launch of the *Ideas 4 MAPS* campaign included videos, brochures, press releases and posters produced in English and Spanish. These items were sent to a private firm for translation. Non-English-speaking residents would benefit greatly from bilingual communications. Professional staff is needed to provide written and verbal translation services for PIM and other city departments. Such support would allow the City to promote education and advocacy, conduct on camera interviews in languages other than English, and strengthen relationships with a diversifying population. The City must be proactive and improve communications with our increasing diverse population if it wants to improve neighborhoods and encourage participation and trust in City government.

Channel 20 Equipment Replacement

As cable subscriptions have ebbed and flowed over time, social media has opened a new gateway for digital communication, with the opportunity to place Channel 20 productions on everyone's smart phone.

Pieces of equipment have been upgraded periodically and maintenance deferred, but a major upgrade to the Council Chamber, control room and studio is still needed. The cost to upgrade equipment is estimated to cost over $1 million and would take seven months to complete. In FY19, funding was approved for audio and lighting.

- *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 in the chamber has largely stayed the same. A camera system 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.

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 32% 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 for a transportation system that works for all citizens.

Changing Dynamics of the City's Off Street Municipal Parking System

Overall occupancy rates in the off-street municipal parking system exceeded 100% in past years and are currently around 80%. The dynamics of the existing off-street municipal parking system are changing rapidly with the sale of the Santa Fe parking garage, construction of the new convention center garage and the anticipated loss of the Cox Center garage in the coming years because of future redevelopment. Municipal off-street parking inventory and revenues will change and future bonding capacity for additional parking garages will be extremely limited. Therefore, new developments in the downtown core that are in close proximity to the Oklahoma City Streetcar and other transit corridors such as Bus Rapid Transit, should consider more efficient off-street parking solutions such as those common in transit-oriented development. Off-street parking ideas that should be explored further include park and ride facilities, shared parking, and fee in lieu of parking which is where developers pay into the municipal parking system and the municipal parking system provides parking in such a way to benefit the most residents and businesses.

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

PUBLIC WORKS

Capital Maintenance of Bridges and 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 ten listed projects in the 2007 authorization and $62 million for 20 new listed projects in the 2017 GO authorization. The Storm Water Drainage Utility funds have primarily addressed the needs of storm water quality, channel cleaning and maintenance and the Household Hazardous Waste program. They can be used on certain capital projects, but are not a primary source of funding.

There are currently 550 bridges maintained by Oklahoma City. All bridges in the City are currently open to traffic, but the list of maintenance needs is increasing. The primary funding source for bridge maintenance and improvements is General Obligation (GO) Bonds. The 2007 Authorization included $20 million for 17 listed projects and the 2017 Authorization included $27 million for 13 listed projects.

new

Citizen Responses

Public Works receives numerous requests for information from the City Clerk's Office, Action Center, Council Support, as well as direct requests to staff. In addition to these methods, Public Works is seeing an increasing amount of activity on social media requiring review and response. The number of requests continues to increase, as does the expectation for a quick response. As the Department works to respond to these requests quickly , accuracy is also critical.

Without additional staff and resources, the opportunity to be proactive in response to information requests is missed. Tools can be developed, utilizing technology and new communication methods, that will improve the timeliness of responses and, in some cases, allow direct access to information.

new

Street Improvement Projects Delivery

Along with project funding, a fully staffed internal workforce and construction contracting community are critical for successful completion of capital projects. The Public Works Streets Program continues to struggle to fill and retain skilled labor positions such as crew workers, drivers and equipment operators that require a Commercial Driver's License (CDL). Staff in the Streets Program has worked with Personnel to develop strategies to fill these positions; however, as quickly as positions are filled, others are vacated due to retirements and promotions. This issue is affecting the private construction industry as well. As the construction contracting companies work to meet the City's expectations for the bond and temporary sales tax programs, growth in capacity is proving difficult due to the lack of qualified applicants. Continued inability to fill these positions for the City's internal programs and also private companies will lead to delays in delivering street construction projects and difficulty in meeting expenditure requirements for the bond program.

UTILITIES

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

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

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

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

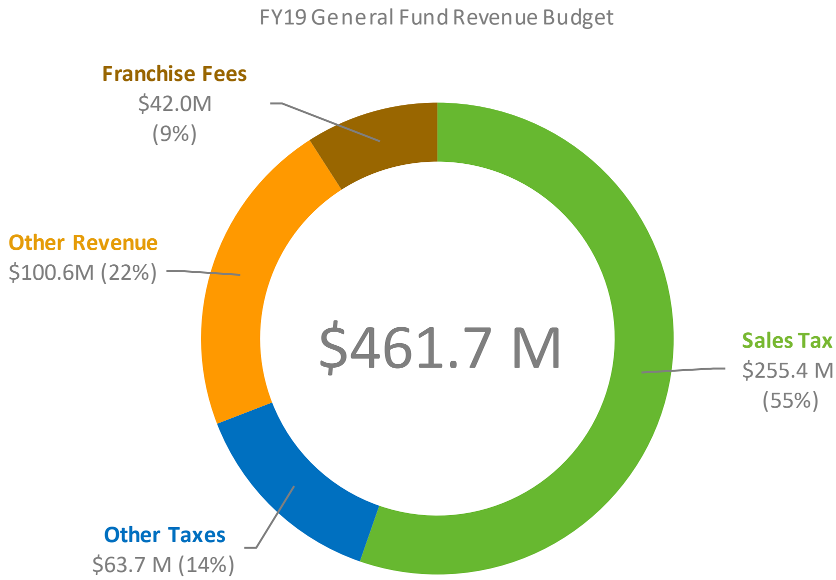
SECTION 6

GENERAL FUND REVENUES

TRENDS AND FORECAST

REVENUE OVERVIEW

The General Fund is supported by a wide array of revenue sources. In fact, there are literally hundreds of individual revenue sources that contribute to the General Fund. Similar sources are combined into categories and shown in the graph below of the FY19 General Fund Revenue Budget. While it would be impossible to forecast every possible area of revenue growth over the next five years, this report attempts to project the most likely growth patterns in revenues. Economic cycles of growth and contraction are expected over the next five years, but rather than projecting the fiscal year in which each cycle will occur, the growth projections were smoothed over the five-year outlook. Because over half of the General Fund budget comes from sales tax, it is the key revenue source. Continued stability of the General Fund will be contingent upon growth in sales tax revenues. For that reason, a significant part of this section will focus on sales tax revenue.

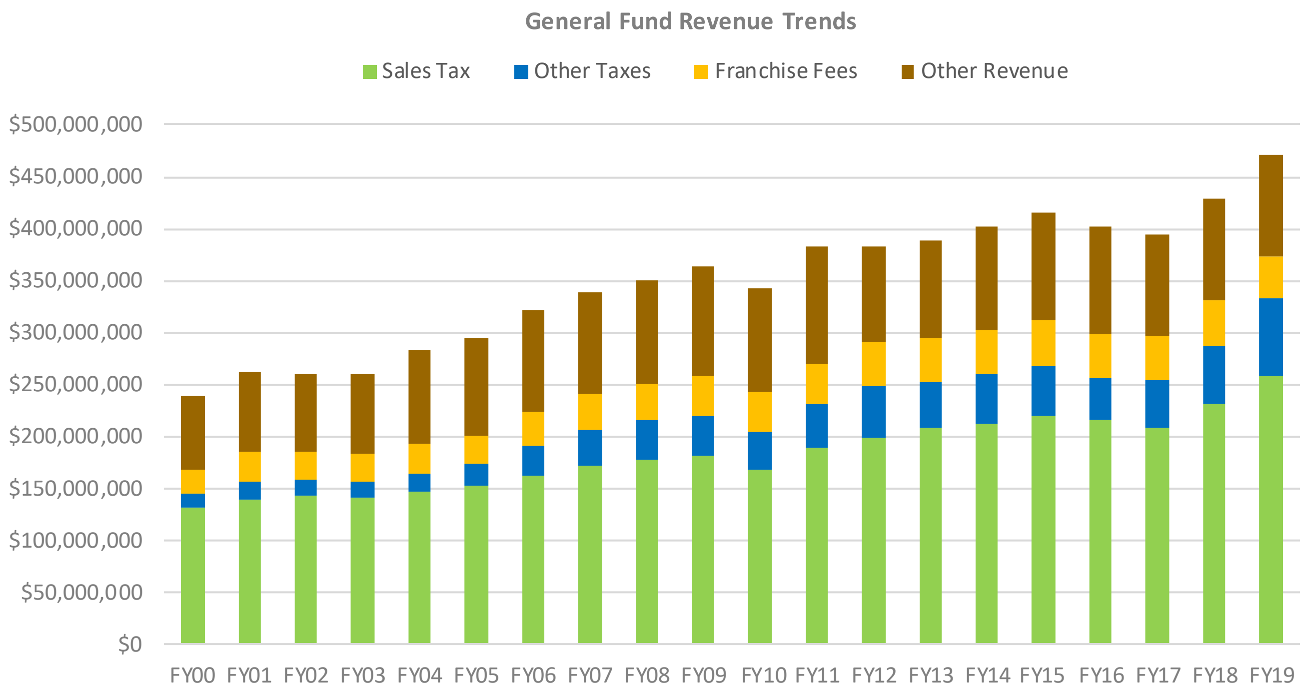


Sales tax is a key revenue source for the City's General Fund.

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

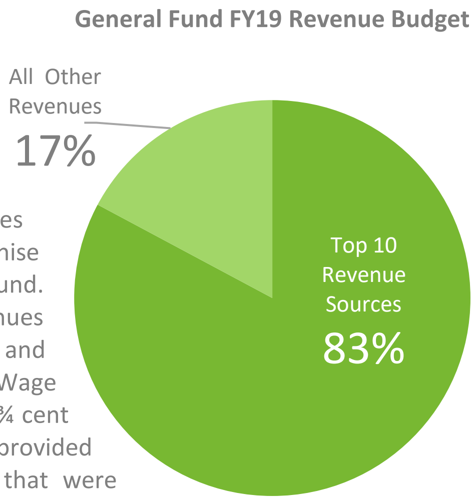
REVENUE TRENDS

The chart below displays the revenue growth trends in the General Fund over the last 20 years. Sales Tax growth, the largest category in green, was driven by changes in population, economic health, movement of retail operations to Oklahoma City and sales tax rates. Other Taxes, in blue, has grown over 400% in the last 20 years. Use Tax is the largest tax in the Other Taxes category and is levied on goods that are bought in other states and then imported to Oklahoma for use. Use Tax has seen exceptional growth the last two years from online sales as vendors have begun collecting and remitting tax due to changes in State Law. Additionally, both Sales and Use Tax collections grew in FY18 and FY19 due to a permanent ¼ cent increase in the tax rate. Franchise Fees, in yellow, have grown at a steady rate with growth largely attributed to the remitters customer base, and in some cases, such as electric, gas, and water weather has influenced consumer consumption. The Other Revenue category, in brown, is made up of various sources but it too is largely influenced by population which is reflected in building permit revenue, licenses, fees, and other service charges.



TOP 10 GENERAL FUND REVENUE SOURCES

When combined, the top 10 budgeted line item revenues account for 83% of the General Fund Revenue Budget. Two of the top 10 revenues are taxes, Sales Tax and Use Tax. Those two taxes combined make up 66% of the General Fund Budget. Revenue from Franchise Fees accounts for three of the top 10 revenue sources and account for 7% of the General Fund Budget. The OG&E Franchise Fee is consistently the third largest revenue source for the General Fund. The Other Revenue category contains the remaining five top 10 revenues which range from court fees and traffic fines to building permits and wage adjustment from the Public Safety Sales Tax Funds. Wage adjustments are payments to the General Fund from the dedicated ¾ cent Sales Tax for Public Safety, that when approved by voters, provided compensation increases for uniformed police and fire positions that were funded in the General Fund.



Revenue Source	FY19 Budget	% of GF	Category
Sales Tax	$255,388,510	55%	Sales Tax
Use Tax	$50,650,630	11%	Other Taxes
OG&E Franchise Fee	$20,978,938	5%	Franchise Fees
Fire Wage Adjustment	$12,092,575	3%	Other Revenue
Court Cost Fees	$9,942,696	2%	Other Revenue
Police Wage Adjustment	$9,307,367	2%	Other Revenue
Traffic Fines	$6,875,466	2%	Other Revenue
Cox Cable Franchise Fee	$6,034,537	1%	Franchise Fees
ONG Franchise Fee	$5,574,023	1%	Franchise Fees
Building Permits	$5,493,088	1%	Other Revenue
TOTAL	**$382,337,830**	**83%**	

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

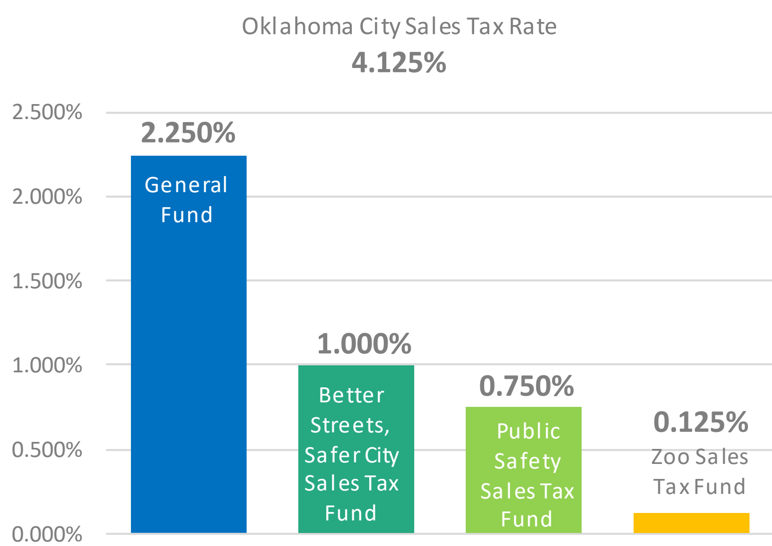
Use tax collections have experienced double-digit growth in FY19 from online purchases due to changes in the State Law that now require online retailers to collect and remit sales tax.

SALES TAX

Sales tax is applied to most retail transactions, as provided by State law, and is collected by local vendors who then remit the revenue to the Oklahoma Tax Commission. 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 15th of the month. For most vendors, this payment is for actual sales in the last half of the prior month and for estimated sales for the first half of the current month. For smaller vendors, the payment is for actual sales made in the prior month.

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

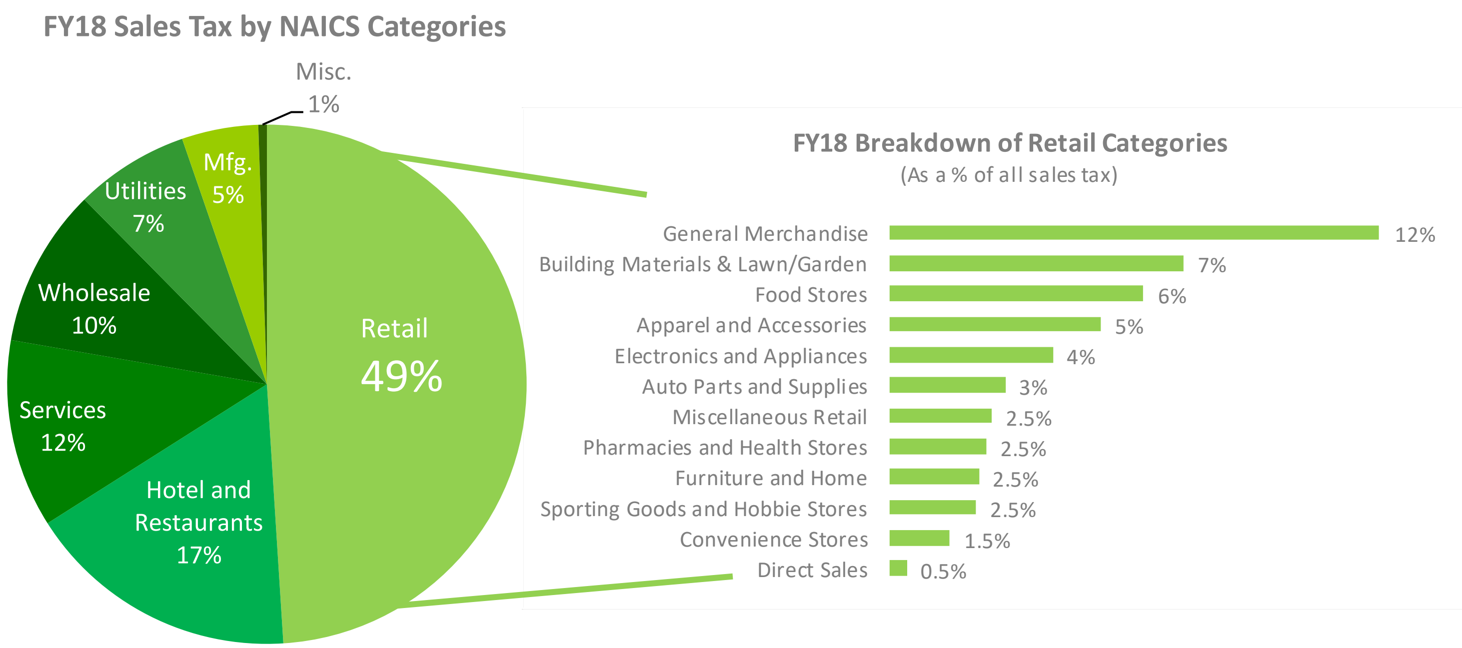
The city's 4.125% sales tax levy is divided between the various funds. The General Fund receives 2.250% and is the single largest revenue source for the General Fund which funds day-to-day operations. The Better Streets, Safer City Sales Tax Fund receives 1.000% and is a temporary sales tax to fund street resurfacing, street enhancements, trails and bicycle infrastructure. Condition of City Streets continues to be citizens highest priority and this temporary tax will help fund improvements. The Public Safety Sales Tax Fund receives 0.750% and is split evenly between Police and Fire. It is a permanent dedicated sales tax. The Zoo Sales Tax Fund receives .125% and is also a permanent dedicated sales tax that can only be used for capital improvements and operations at the zoo.



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

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

The charts on the following page illustrate the most significant sectors of Oklahoma City's sales tax base for FY18. 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 more granular look at the data. Because retail is such a large piece of sales tax, special attention is paid to the components within retail which are detailed in the bar chart.

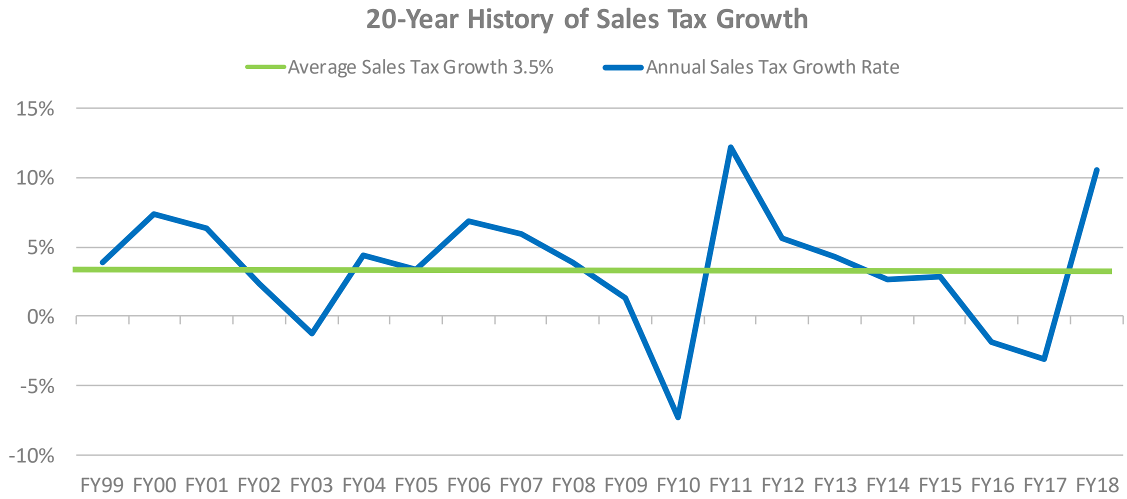


One limitation of the system is that a business can only be classified in one NAICS category even if the business sells multiple types of goods. For example, the sales tax from Walmart on groceries is shown as Retail Sales Tax, General Merchandise rather than Food Stores because Walmart is considered 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.

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 sales tax a real challenge as growth can change dramatically from year to year as shown in the chart below.



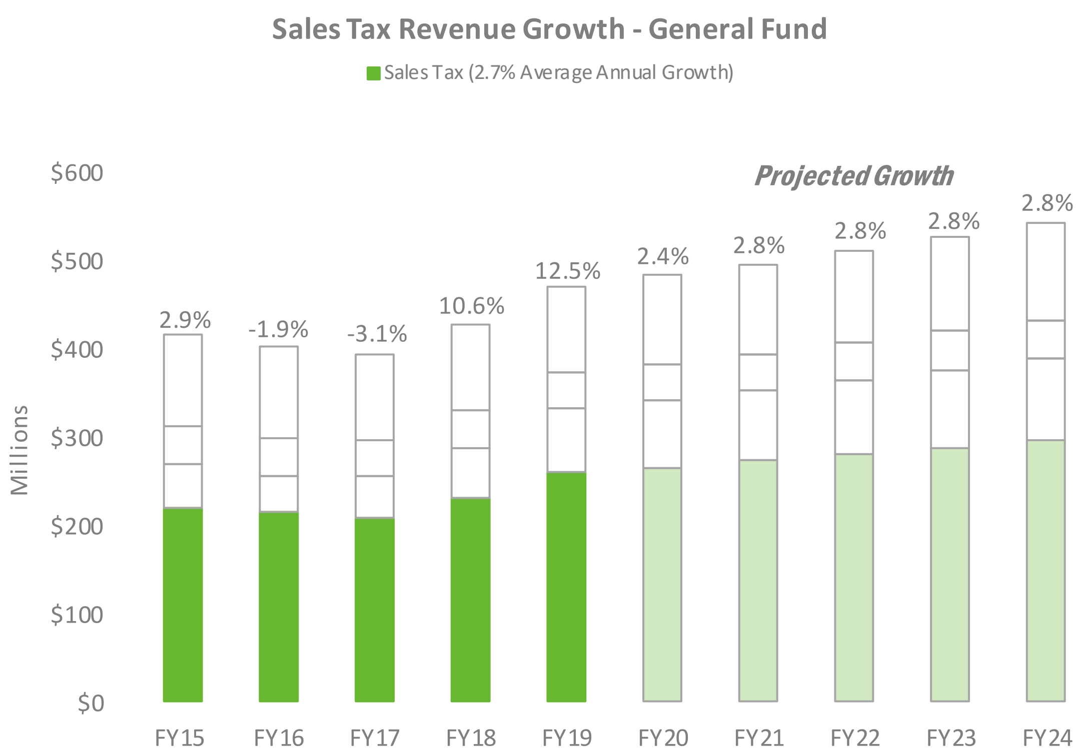
For Oklahomans, extremely low natural gas and oil prices are a concern as those prices result in lower exploration and production activity and decreased employment in the mining sector. Oil and gas have proven to have a bigger impact on our local economy than the underlying strength that has been building 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 4.0% growth per year to 3.5% growth per year. The trend continues to be analyzed since Oklahoma City maintained one of the lowest unemployment rates in the nation at an average of 4% the time period.

Part of the Economic Forecast developed by Dr. Russell Evans, Economist at Oklahoma City University, was an estimate of taxable retail sales. Preliminary discussions about the forecast in November 2018 were used in the projection for sales tax growth for the remainder of FY19 and for FY20. Based on those discussions and our long-term average, sales tax growth for FY19 is expected to grow at a base rate 3.7% from FY18. With the permanent ¼ cent sales tax increase that went into effect January 1, 2018 added, sales tax is expected to grow 12.5% in FY19. Due to the increase in the sales tax rate, sales tax is now 55% of General Fund revenue and the single largest revenue source in the General Fund.

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

FY20 Sales Tax projections include $1 million in collections expected to be generated from two projects under construction in downtown Oklahoma City, including an OMNI Hotel as envisioned in the artist rendering above. The OMNI Hotel will open in early 2021 and is the official hotel of the City's Convention Center.

To prepare our FY20 base budget, we used a base sales tax growth rate of 2% and added an extra $1 million from sales tax collections that are expected to be generated in FY20 from two projects under construction, the First National Center and the OMNI Hotel; with that addition, the projected growth increased to 2.4% in FY20. As estimates are refined this spring based on the recent activity and economic indicators the FY20 sales tax growth rate will be adjusted accordingly. In the last four years of the forecast, we projected sales tax would grow at 2.8%, the 10-year average growth rate. When the five years are combined, the average growth rate for sales tax is projected to be 2.7% annually. This projection results in a FY20 sales tax budget of $265.0 million that increases to $295.3 million in FY24.



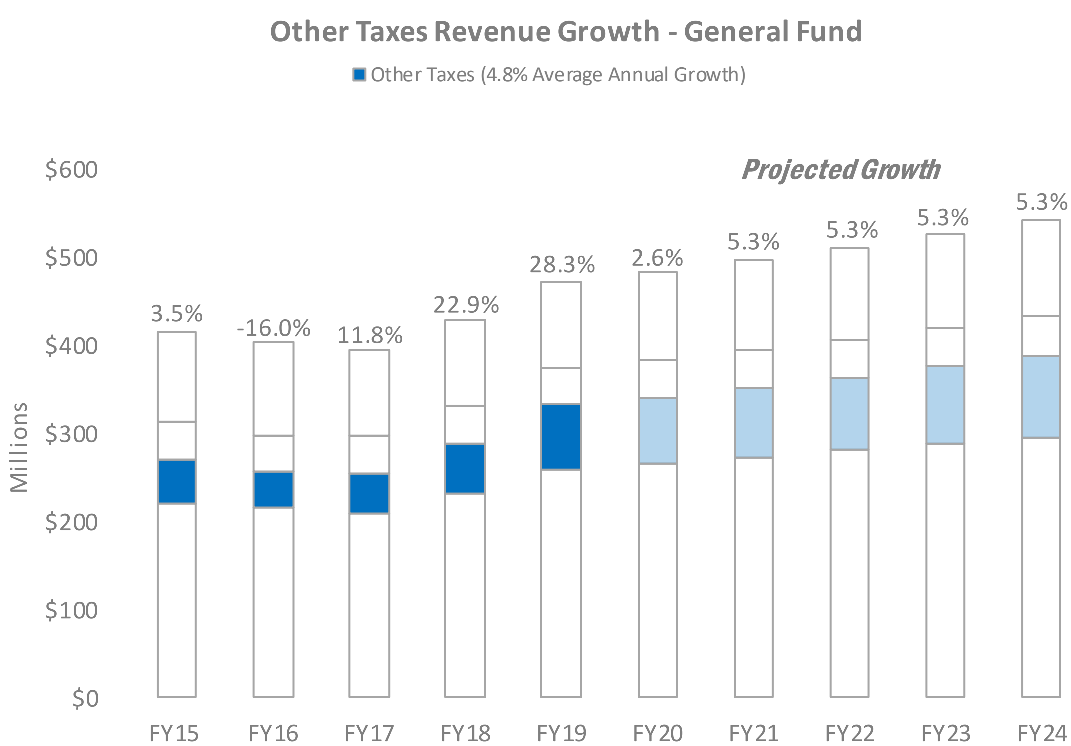
OTHER TAXES

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

OTHER TAXES REVENUE FORECAST

Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. In FY19, use tax is expected to grow at 36.4% due to Amazon and other retailers remitting use tax for online purchases and a permanent ¼ cent increase in the use tax rate that became effective January 1, 2018. In FY20, Use Tax was projected to grow only 3.0% as a general slowing in the economy is expected and the tax rate increase will have normalized. For FY21 through FY24 we projected a growth rate of 6.0% based on the 10-year average.

Commercial vehicle tax, motor fuel tax, alcohol tax and the excise tax on tobacco, are all allotted to the City from the state by formula. All of these taxes stay rather steady in their collections and are projected to grow at an average of 2% over the forecast period. The last tax in this category is Occupation Tax which is levied by the City for specific occupations when the City is the principal place of business for the occupation. Most common are retail gasoline filling stations, retail diesel stations and retail oil stations with the tax levied on each pump; there is also an Occupation Tax on businesses related to alcoholic beverages. The projected growth for Occupation Tax is also 2.0%. Over the five-year forecast the average growth for all other taxes, which is 14% of the General Fund, is projected to be 4.8% annually resulting in a projected budget of $75.2 million in FY20 that increases to $92.4 million in FY24.



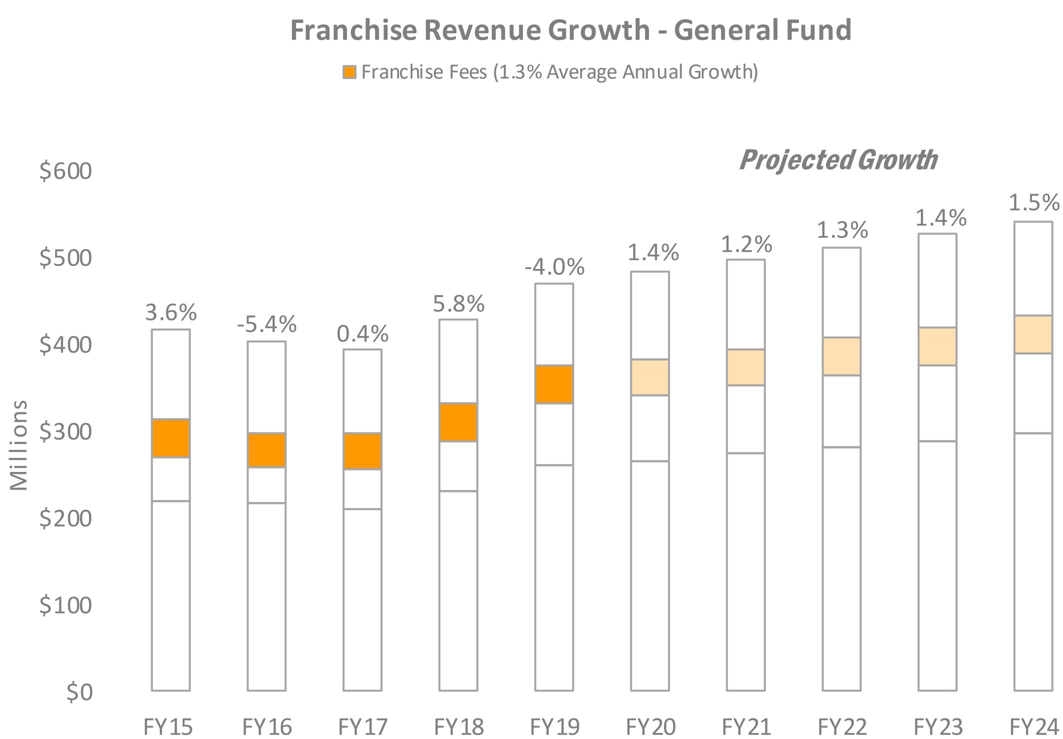
FRANCHISE REVENUES

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. Three of the top 10 revenue sources in the General Fund are from franchise fees. Those three, Oklahoma Gas & Electric, Oklahoma Natural Gas, and Cox Cable, remit fees to the city that typically comprise about 76% of all franchise revenue and 7% of all General Fund revenue. 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 influenced by customer base and can be significantly impacted by weather and fuel prices. Video/cable franchises have been declining the last four years as subscribers follow a national trend of cancelling pay TV services and opting for online video services. As telephone landlines become less common, we continue to see revenue from that sector decrease. Franchise revenues from Water, Wastewater and Solid Waste grow steadily as population and rates increase.

FRANCHISE REVENUE FORECAST

Franchise revenue is expected to finish FY19 down 4.0% from FY18 due to mild weather and a rate adjustment from OG&E because of a decrease in fuel prices. OG&E is the largest franchise remitter and is consistently the third largest revenue source in the General Fund. From FY20 through FY24 each franchise is projected to grow at their 5-year historical average which is slightly more than 2% annually. Cable franchises are expected to continue their decline over the next five years which brings the average growth down to 1.3% annually. The FY20 projected budget for franchise revenue is $42.4 million which increases to $44.7 million in FY24.



OTHER GENERAL FUND REVENUES

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

- **Licenses, Permits & Fees** - Building permits, the 10th largest revenue source in the General Fund, is projected to grow almost 11% in FY19 due to several new construction projects including the OMNI Hotel and a new distribution center for Amazon. Building permit revenue is 1% of the total General Fund revenue budget. In FY20 through FY24, growth is projected to be 1.5% annually, the five-year average. Other revenue sources in this category include various business licenses and permits for activities ranging from garage sales to elevators. The charges in this category are designed to recover the cost of enforcement and administration of city codes and account for 3% of the General Fund revenue budget.

- **Services & Administrative Charges** - Two of the top 10 revenues in the General Fund are in this category, Police and Fire wage adjustments. These are payments from the Public Safety Sales Tax Fund to the General Fund for reimbursement of paid police and fire wages. These two payments are 5% of the General Fund budget and are projected to grow at 1% annually. Also included in this category are animal shelter, engineering, planning, recreation, police fees, parking meter fees, and inter-agency charges for services such as accounting and legal. Combined, these charges account for 12% of the General Fund revenue budget. Each revenue source was projected to grow based on their own historical average; overall the category is projected to grow at 2.4% annually.

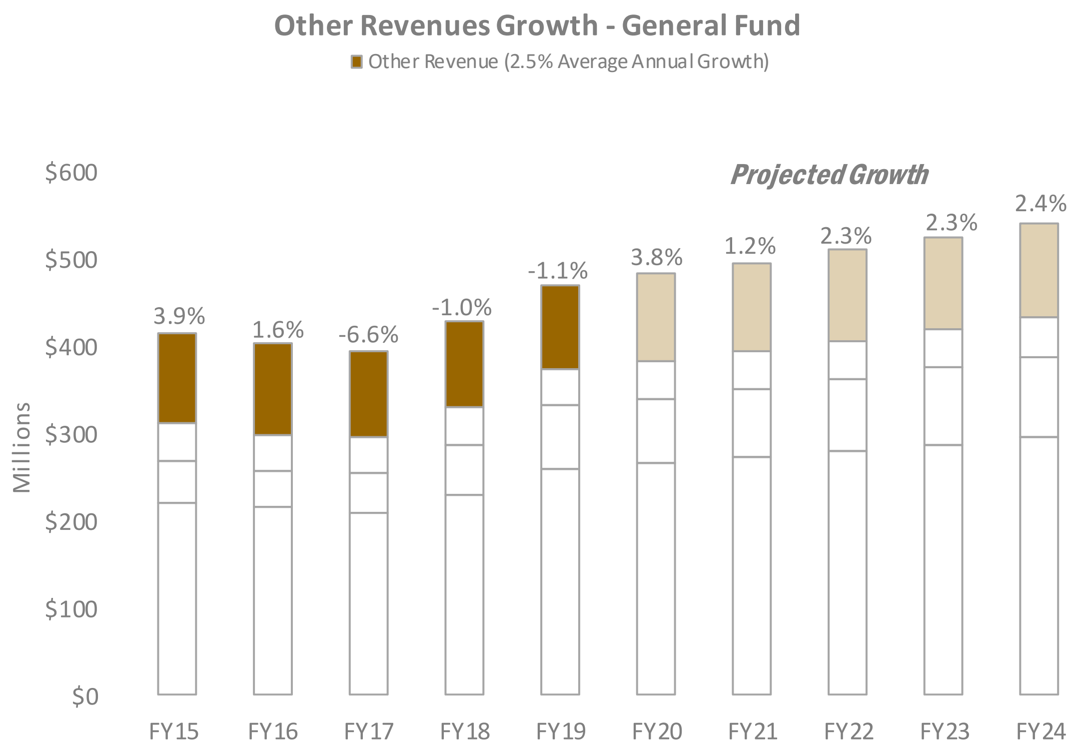
- **Fines** - This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed for violations of other municipal ordinance, and revenue from court costs. Two of the top 10 revenue sources in the General Fund are from this category, Court Cost and Traffic Fines. Combined, these two revenues account for 3% of all General Fund revenue and have been in decline for the last five years due to fewer citations issued and case filings. The category is expected to stabilize in FY20 and grow at 0.8% annually thereafter.

- **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 4.0% of the General Fund revenue budget. In FY20, transfers are expected to grow at 85% based on a one-time transfer of approximately $2 million for a special project. In FY21 through FY24, transfers return to a historical growth rate projection of 4%. Other revenues are expected to grow at 27.0% in FY20 due to at least two interest rate increases from the Fed and the sale of city property. In FY21 through FY24, growth in other revenues returns to historical averages of 6.3% annually.

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

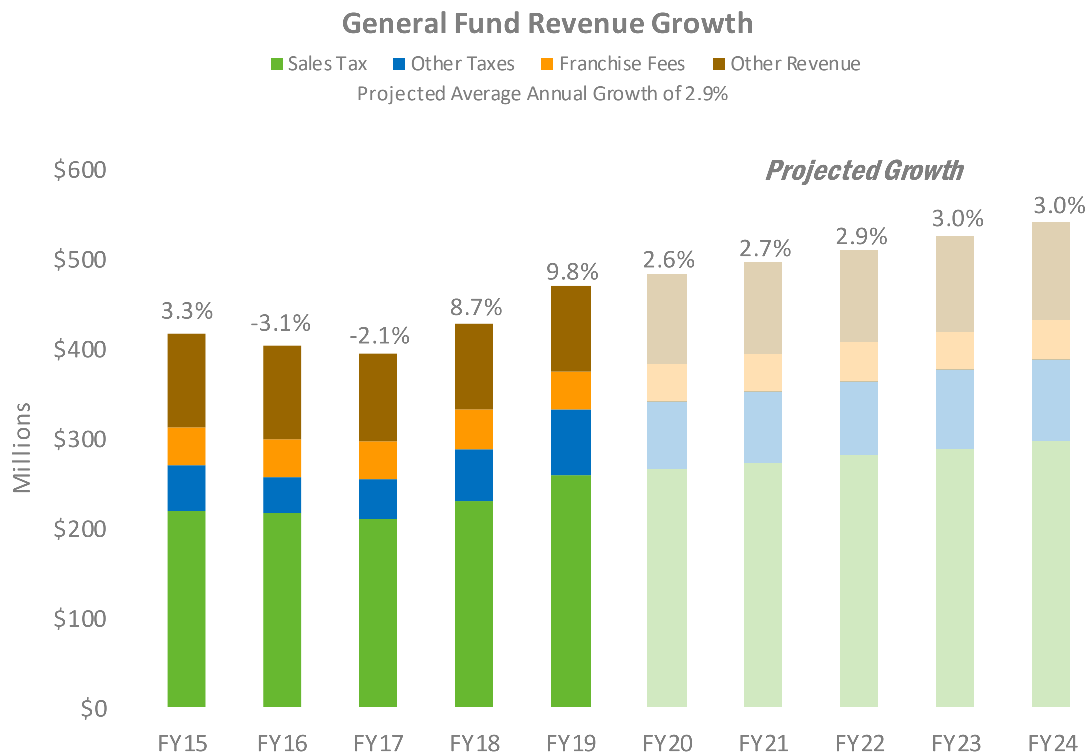
OTHER GENERAL FUND REVENUES FORECAST

Overall, this group of other revenues makes up 22% of General Fund revenue. Growth of 2.5% was projected over the forecast period and was largely based on long-term average growth patterns. The FY20 projected budget for other general fund revenues is $100.1 million which increases to $109.0 million in FY24



OVERALL REVENUE FORECAST

When all of the categories are combined General Fund revenues are expected to grow at about 2.9% per year over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated revenue of $482.6 million in FY20 to $541.5 million in FY24.



FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

SECTION 7

GENERAL FUND EXPENSES

TRENDS AND FORECAST

EXPENDITURE OVERVIEW

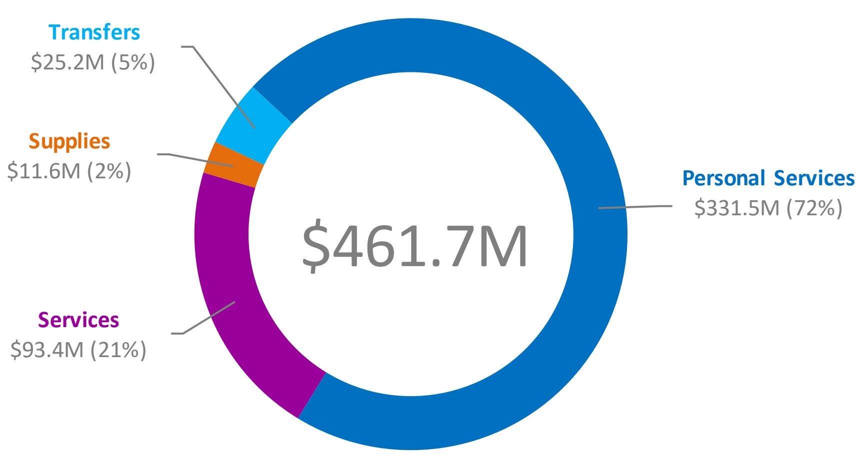
City expenditures encompass an enormous variety of goods and services for items ranging from employee salaries to sophisticated computer programs to dog food. While it would be impossible to forecast every possible area of expenditure growth over the next five years, this report attempts to project the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

	Budgeted Cost Per Year				
New or Enhanced Service	FY20	FY21	FY22	FY23	FY24
Animal Control Services	$295,262	$306,650	$318,533	$328,599	$339,081
American Indian Cultural Center				$2,000,000	$2,000,000
Softball Complex	$728,862	$751,457	$774,977	$799,467	$824,970
Scissortail Park - Lower Park		$761,500	$2,882,400	$3,024,100	$3,172,800
OKC Boulevard Landscape Maint.	$300,644	$309,964	$319,666	$329,767	$340,287
Other Enhancements	$141,055	$145,428	$149,980	$154,719	$159,654
Fire Dispatch	$139,281	$143,599	$148,093	$152,773	$157,647
Police Investigations Civilian Positions	$233,835	$241,084	$248,630	$256,487	$264,668
Convention Center Operations	$875,707	$3,186,829	$2,261,286	$1,351,522	$1,351,522
Bus Rapid Transit				$3,500,000	$3,500,000
Bus Replacement		$4,150,000	$5,250,000	$0	$600,000
Total	**$2,714,646**	**$9,996,510**	**$12,353,565**	**$11,897,433**	**$12,710,629**

FY19 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.

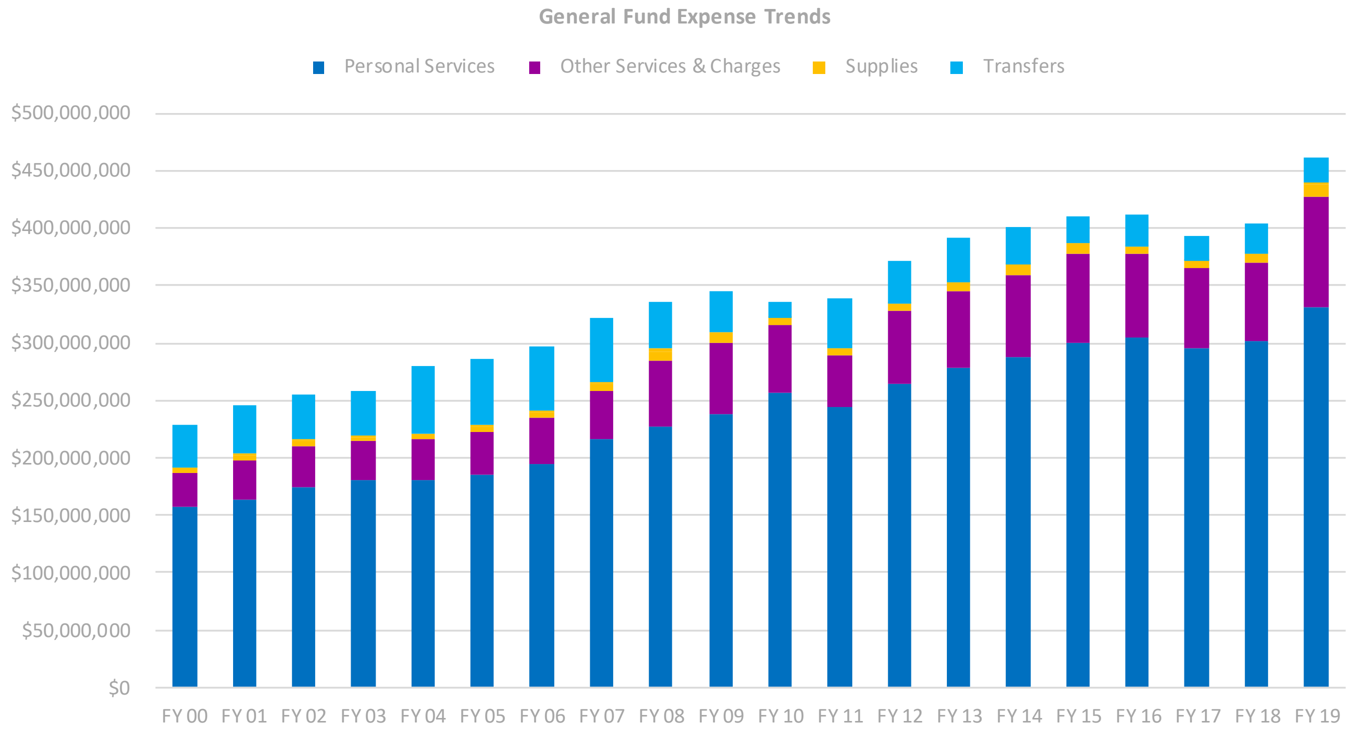
FY19 General Fund Expense Budget



Oklahoma City Police Officers visit with residents during "Coffee with a Cop". The monthly event creates an opportunity for the public to get to know the police officers in their area and voice their concerns.

EXPENSE TRENDS

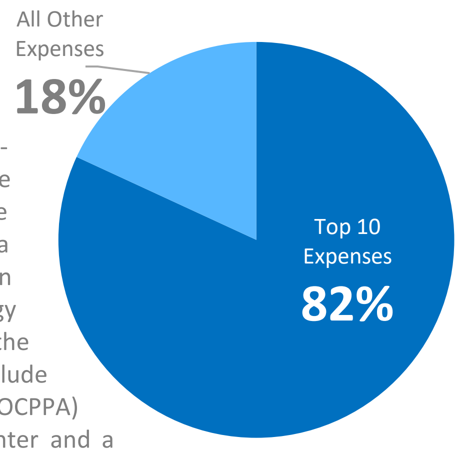
The chart below displays the expense trends in the General Fund; expenses have doubled or grown 102% over the last 20 years. Personal Services, the largest category in blue, is driven by the number of employees and the pay and benefits of those employees. The Other Services category experienced the most significant growth of all the categories at 235%. A change in business process in FY08 recategorized some expenses from transfers to payment for services. The significant growth in the Other Services category in FY19 occurred when services once performed by City employees, which had been categorized as personal services, were contracted out and are now expensed as Other Services. For example, operation of the Civic Center Music Hall, a performing arts center, was contracted to the Civic Center Foundation for operation in FY19. The smallest category, Supplies, grew 111% over the 20-year period, while Transfers declined 39%, due to the change in business process in FY08 described above.



TOP 10 GENERAL FUND EXPENSES

When combined, the top 10 budgeted line item expenses account for 82% of the General Fund Budget. Although not inclusive of all personal related services, five of the top 10 line-items are from the Personal Services category and equal 68% of the General Fund budget. Personal related services include salaries and wages, insurance, retirement, retiree insurance (aka Other Post-Employment Benefits or OPEB), and overtime wages. The three largest line items in the Other Services category represent 10% of the General Fund budget and include payments to the Central Oklahoma Transportation Parking Authority (COTPA) for public transportation and payments to internal service funds for Information Technology and Risk Management services. The two largest line items in the Transfers category represent 4% of the General Fund budget and include annual transfers to the Oklahoma City Public Property Authority (OCPPA) for operating costs at the Chesapeake Arena, Cox Convention Center and a transfer to the Capital Improvement Fund for fleet replacement and capital maintenance to City assets.

General Fund FY19 Expense Budget



Expense	FY19 Budget	% of GF	Category
Salaries and Wages	$216,702,370	47%	Personal Services
Health and Welfare Insurance	$45,284,789	10%	Personal Services
Retirement/Pension Contributions	$24,355,759	5%	Personal Services
Payments to COTPA	$21,069,018	4%	Other Services
Chargeback - IT	$18,326,632	4%	Other Services
OPEB Expense	$14,562,836	3%	Personal Services
Overtime	$13,242,486	3%	Personal Services
Transfer to OCPPA	$8,428,168	2%	Transfers
Transfer to CIP	$8,153,568	2%	Transfers
Chargeback - Risk Mgmt	$7,879,334	2%	Other Services
TOTAL	**$378,004,960**	**82%**	

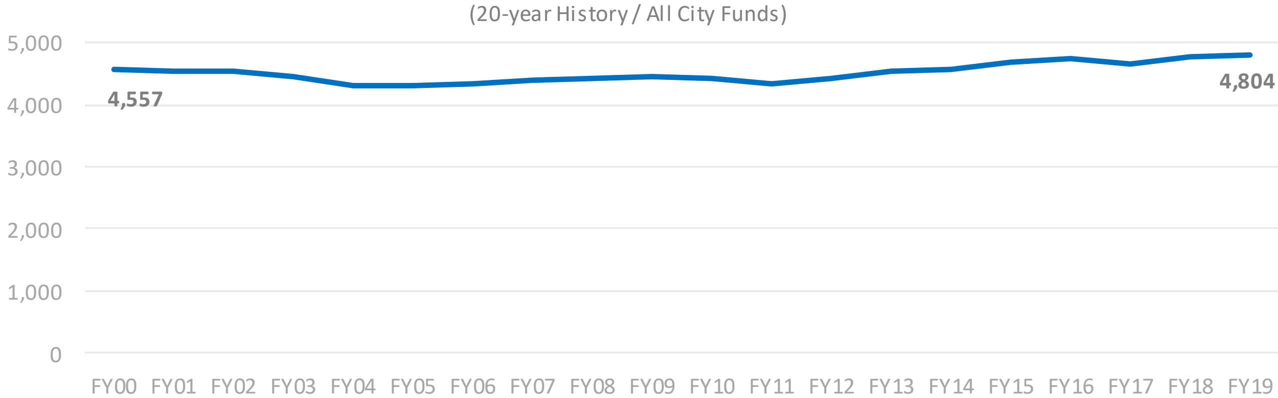
The sections that follow focus on the trends and projections of each expense category and what may be influencing recent trends and future projections.

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

PERSONAL SERVICES

At 72% of the FY19 General Fund budget, personal services are the primary driver in expenditure growth in the General Fund. Personal services include salaries, insurance, retirement contributions, parking, uniform and tool allowances. The two main drivers in the growth of personal services are the number of employees and the pay and benefits of those employees. Five of the top 10 line-item expenses are in this category are related to the pay and benefits of employees and include salaries and wages, health insurance, retirement/pension contributions, Other Post-Employment Benefits (OPEB) which is healthcare insurance for retirees; and overtime. The FY19 budget increased the number of positions by 37, or 0.78%, to 4,804 – the largest count in City history.

Total Number of City Employees
(20-year History / All City Funds)

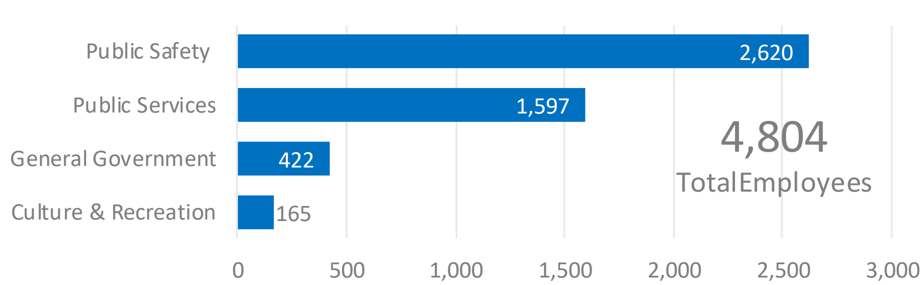


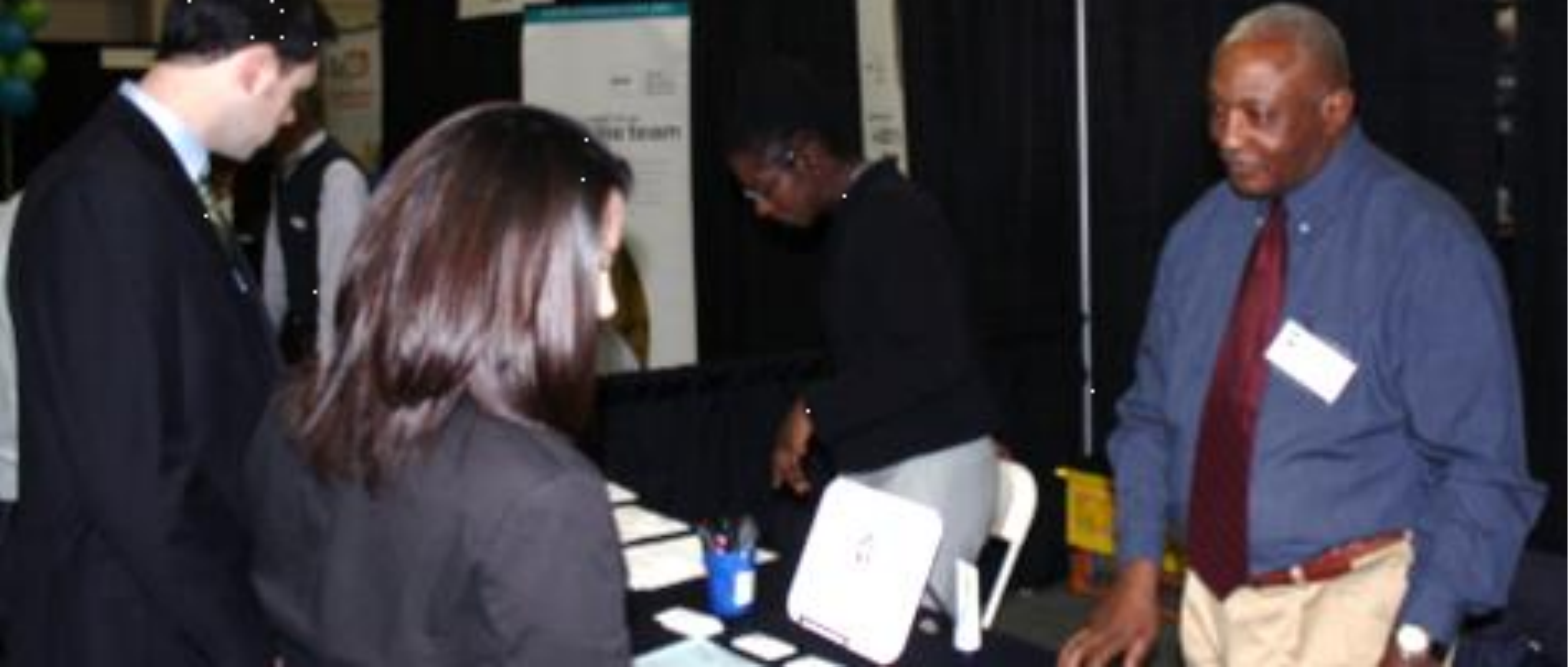
Employee count tends to go up and down with economic cycles as shown in the graph above; but, overall the number of City employees has remained rather steady, growing only 5.4%, or 247 budgeted positions, over the last 20-years. Staff has managed to control growth by gaining efficiencies through use of technology, contracting out services to industry experts such as management of the arena, convention center and performing arts venue, and reprioritizing services.

Change in Employee Count over last 20-years		
Public Safety	190.0	7.8%
Public Services	217.5	15.8%
General Government	-59.5	-12.4%
Culture and Recreation	-101.0	-38.0%
Total Change	247.0	5.4%

In terms of distribution of City employees among the various categories of services provided, the largest group is focused on public safety which make up 55% of the City's workforce and includes fire, police and courts employees. Second largest, at 33% of all employees, is the public services category which includes the Water, Wastewater, and Solid Waste Utilities, Public Works, Airports, Public Transportation and Parking, Development Services, and Planning departments. General government comprises 9% of the total and is made up of the employees in the Mayor's and City Council Office, City Manager's Office, City Clerk's Office, City Auditor's Office, Municipal Counselor's Office, Finance, Information Technology, General Services and Personnel departments. Finally, culture and recreation consist of the Parks and Recreation Department and represents 3% of the total.

FY19 Employees by Service





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

The total number of City employees under-represent the full level of effort in these areas due to two primary factors; the first is that these figures only count city employees and do not include employees of the city's trusts. The Oklahoma City Zoological Trust has about 155 full-time employees and the Oklahoma City Public Property Authority has about 61 full-time employees working at the city's golf courses. These employees would count in the culture and recreation category.

There are also 241 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.

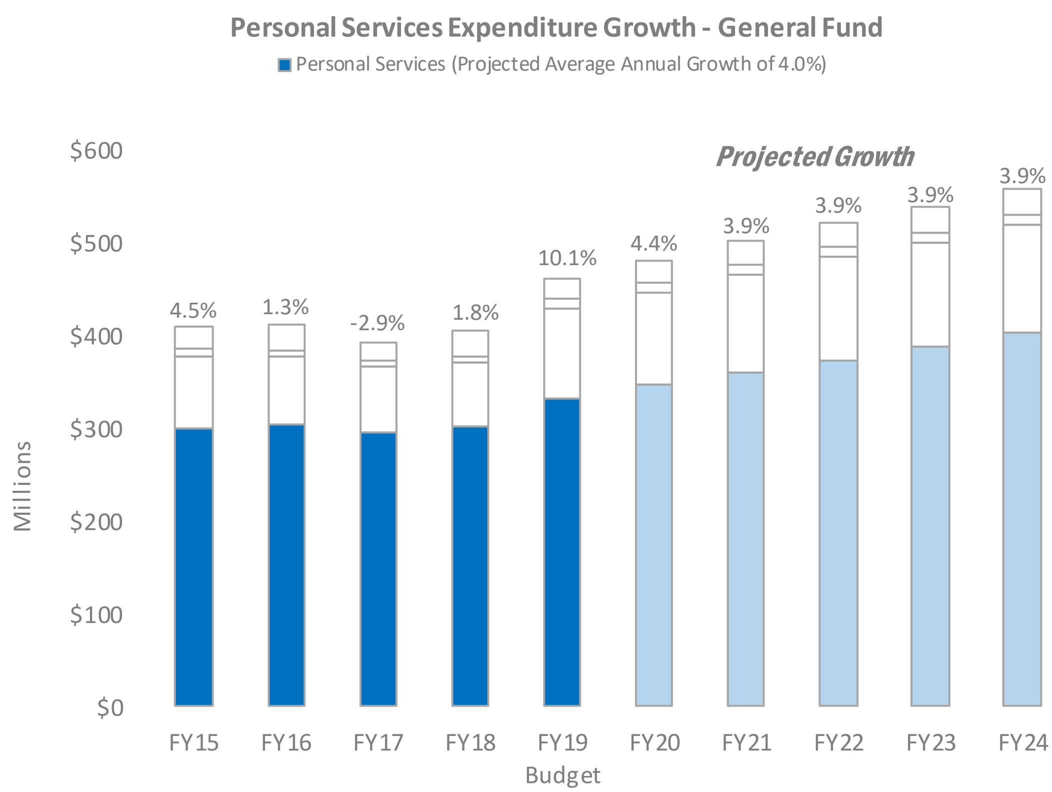
Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY19 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,498 general positions. The Fraternal Order of Police (FOP) represents the 1,234 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 999 uniformed fire positions. The remaining 1,164 positions are unrepresented management and executive positions that receive pay plan changes through city management recommendation and Council approval. When a group's pay plan is increased, all members of the group receive an increase. In addition to the pay plan increase, employees are also eligible for an increase in pay due to merit or longevity depending on the group to which they belong. Employees in AFSCME or management would not receive a merit pay increase if their performance were rated as unsatisfactory during their annual performance review or if they were at the top step of their pay range. FOP and IAFF employees would not receive a merit or longevity increase if they were at the top step in their pay range and have been working for the City for more than 20 years.

PERSONAL SERVICES FORECAST

Looking back at how employee costs have grown in recent years helps to inform the projections for the future. In FY20 the rate of growth is projected at 4.4% due to the addition of 25 positions to the General Fund and adjustments to salaries and wages, insurance and pension contributions. Of the 25 positions, 22 were added to enhance existing service levels as described in the paragraph below while three were reallocated from other funds. In FY20, 2,975 positions are expected to be budgeted in the General Fund with the remaining 1,850 or so positions budgeted in other significant operating funds such as Police or Fire Sales Tax, Utilities, Airports, Storm Water Quality, Internal Service Funds, etc. The projected annual growth rate drops to 3.9% in FY21 through FY24 as fewer positions are expected to be added. Increases to position related expenses were based on average annual increases from the last five years and ranged from 2% for inflation to 7% for health insurance. Over the five-year forecast period, the average growth is projected at 4.0% annually for personal services with a projected budget of $346.1 million in FY20 that grows to $403.1 million in FY24.

FUTURE EXPENDITURES FOR NEW OR ENHANCED SERVICES

In FY20 $2.4 million a year was added for 25 positions of which 22 are new and will provide enhanced services including five positions in Animal Control, nine positions in Parks for operation of the Boomer Softball Complex and landscape maintenance of the new Oklahoma City Boulevard; a Training Technician in the Personnel Department to support a supervisor development program; a position to support the Mayor; one uniformed position to enhance fire dispatch and two civilian positions, one in Fire IT and one at Fire training; and three civilian positions in Police Investigations.



OTHER SERVICES

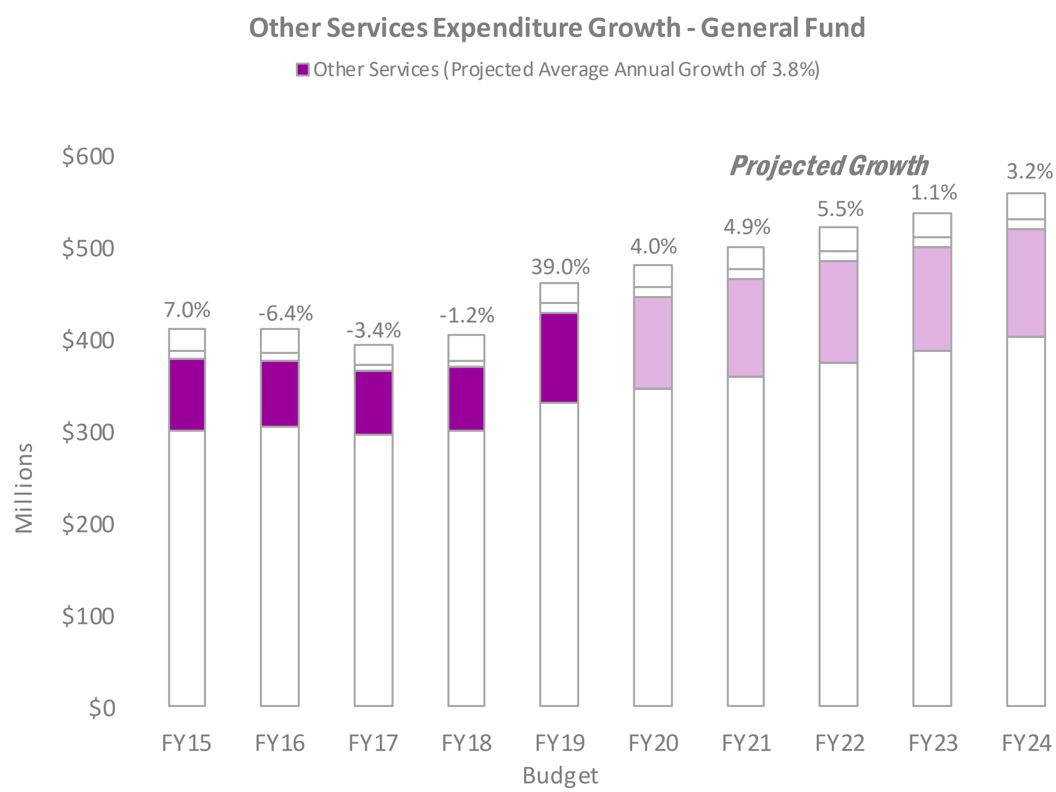
Other services include expenditures for service contracts, utilities, printing, employee training, vehicle repairs, professional services and chargebacks. Chargebacks are charges between internal city agencies for services such as vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance. The FY19 budget for other services totals $93.4 million or 20% of all General Fund expenditures. Three of the top 10 line-item expenses are in this category and include payments to the Central Oklahoma Transportation and Parking Authority (COTPA) for operation of the City's Public Transportation System and payments to the internal services funds for Information Technology and Risk Management services. Those three line-items combined consume 26% of the category budget and 11% of the total General Fund budget.

OTHER SERVICES FORECAST

Most of the costs for other services during the forecast period are expected to grow at a base rate of 2.0% per year, the average annual growth rate over the last five years, with adjustments for specific items made as needed. Beginning in FY20 $4.2 million was added to the Other Services budget for various service contract increases ranging for audit services to Microsoft Product Licensing, in addition to an increase in contingency. Other significant changes are summarized in the paragraph below. After all adjustments, the average growth is projected to be 3.7% annually for other services over the next five years with a budget of $100.1 million projected in FY20 that grows to $115.7 million in FY24.

FUTURE EXPENDITURES FOR NEW OR ENHANCED SERVICES

In FY21, $0.8 million was added for the MAPS 3 lower Scissortail Park which will open; the amount increases to $2.9 million the following year and then grows slightly each year thereafter. In FY21, $4.1 million was added for bus replacement. Beginning in FY23, $2 million was added for management of the American Indian Cultural Center and Museum and $3.5 million for operation of the City's first Bus Rapid Transit route. Projections are continually being refined by staff and will be adjusted accordingly each year.



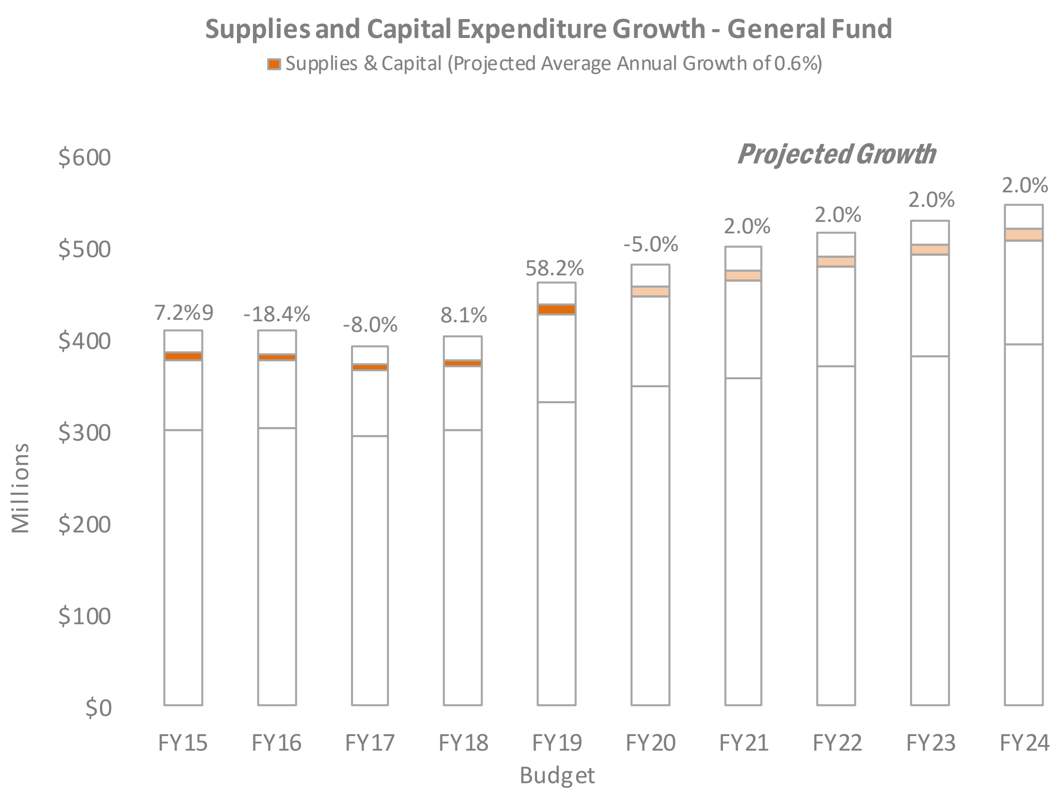
SUPPLIES AND CAPITAL

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

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

SUPPLIES AND CAPITAL FORECAST

In FY20, supplies and capital are budgeted to decrease 5% due to recent fleet and equipment replacements which should reduce repair and maintenance costs. In FY21 through FY24, expenses are projected to average 2.0% annually due to inflation and historical average growth rates. When averaged over the five-year forecast period, the growth is projected to be 0.6% annually for supplies and capital with a projected budget of $10.7 million in FY20 that increases to $11.5 million in FY24.



TRANSFERS

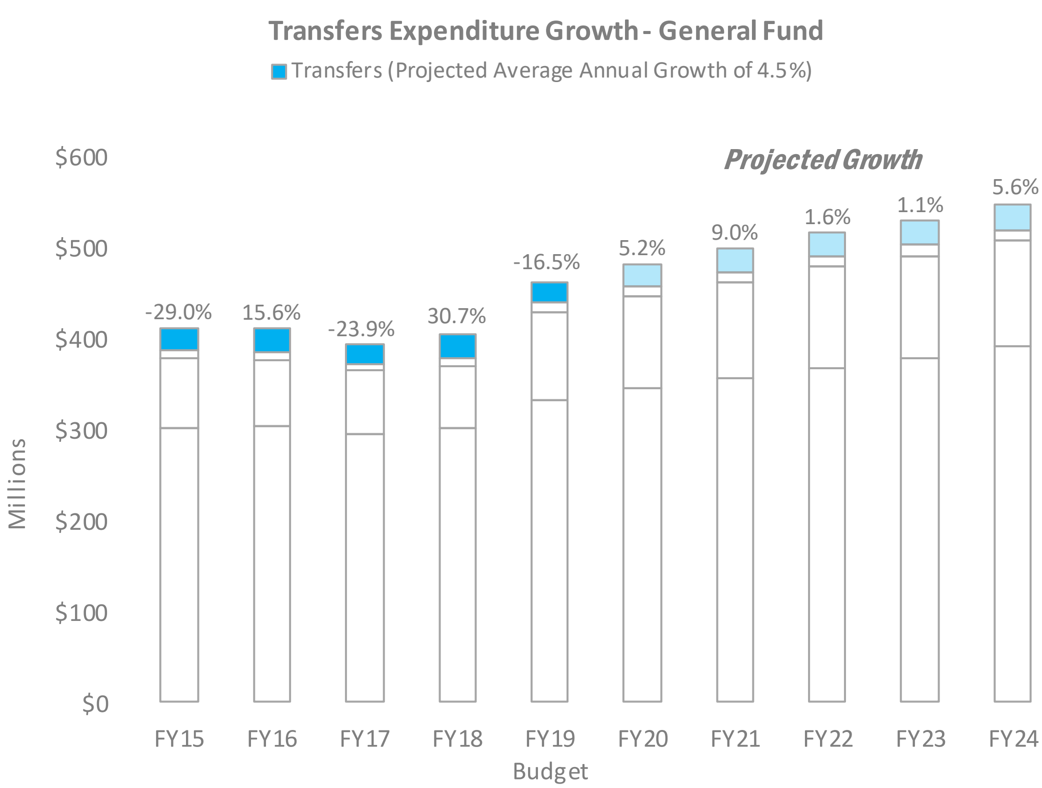
General Fund transfer costs reflect the General Fund's direct financial support of several services whose own dedicated funding sources are insufficient to meet City objectives. The FY19 General Fund budget includes $25.2 million in transfers which is 5% of the total budget. Two of the top 10 line-item expenses are in this category and include a FY19 budget of a $8.4 million transfer to the Oklahoma City Public Property Authority (OCPPA) for operation of the Chesapeake Energy Arena and Cox Center and an $8.2 million transfer to the Capital Improvement Project Fund that will largely be used for fleet replacement and capital maintenance to City assets. Those two transfers combined consume 73% of the category budget and 4% of the total General Fund budget.

Transfers Expenditure Projections

The growth rate for each transfer is budgeted individually using historical data and analysis of specific projects. In FY21, a decline in transfers was projected as capital funding for Municipal Courts is expected to be depleted. When averaged over the five-year forecast period, the growth is projected to be 4.5% annually for transfers with a projected FY20 budget of $23.8 million that increases to $28.1 million in FY24.

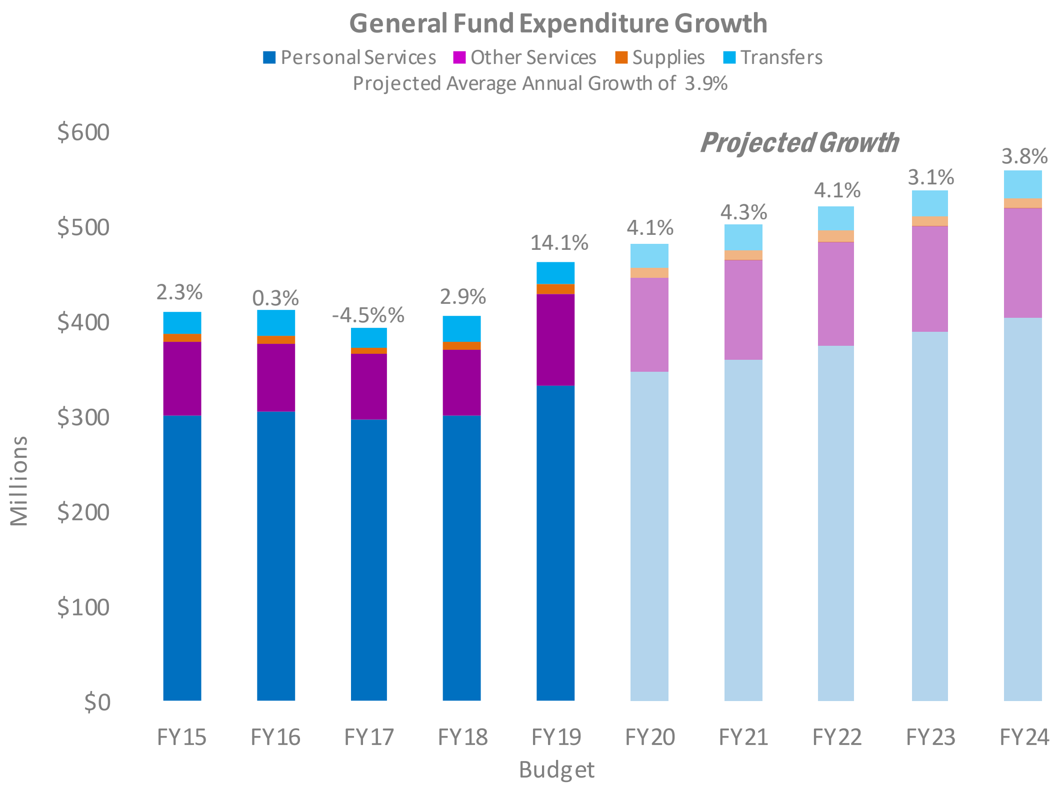
FUTURE EXPENDITURES FOR NEW OR ENHANCED SERVICES

Beginning in FY20 $0.9 million was added for the MAPS 3 Convention Center so that key staff could be hired and marketing could begin in preparation for opening in FY21 at which time an additional $3.2 was added for operations. In FY22 the transfer for operations of the new convention center was reduced to $2.3 million and then in FY23 and FY24 the cost was reduced to $1.4 million as the venue is expected to benefit from increased use and efficiencies.



OVERALL EXPENDITURE FORECAST

When all the categories are combined, the net effect in General Fund expense is growth of 3.9% annually over the next five years. Growth in FY20 includes the addition of 25 full-time budgeted positions, of which 22 positions will provide new or enhanced services. The FY20 budget is projected to be $480.7 million which increases to $558.5 million in FY24.



FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

SECTION 8

GENERAL FUND

REVENUE/EXPENDITURE GAP

FIVE-YEAR FORECAST

FISCAL YEAR 2020 - 2024

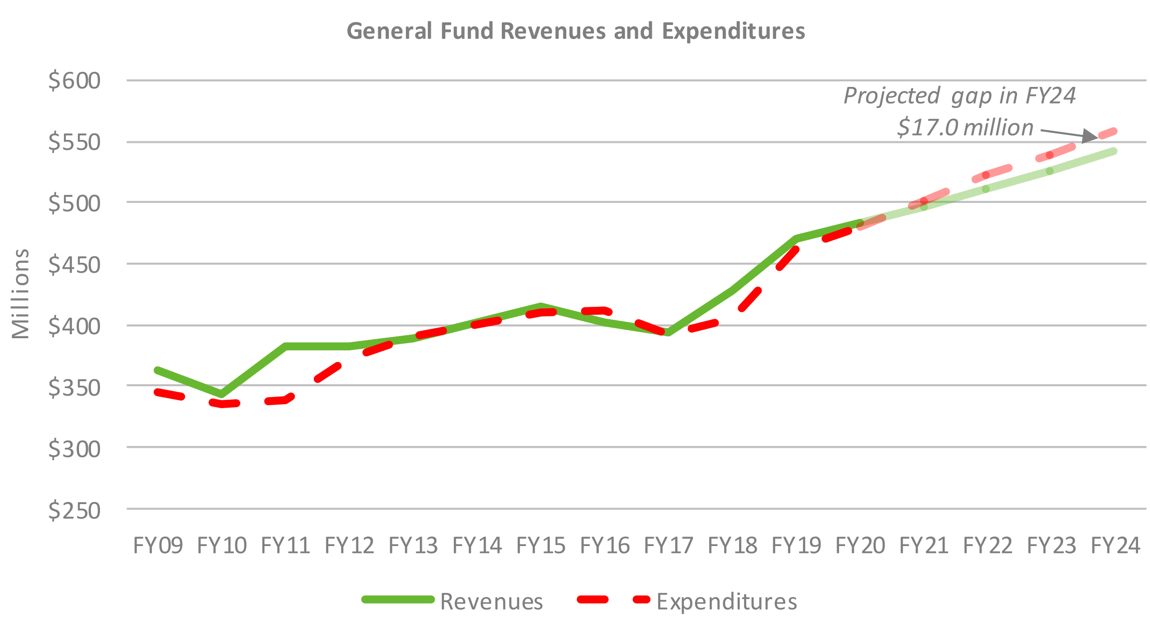
PROJECTED REVENUE/EXPENDITURE GAP

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, the local economy experienced a mini-boom with growth of 8.7%. A ¼ cent increase in the sales tax rate that was effective mid-year generated a portion of the growth which carried over into FY19. The growth in FY19 is expected to be 9.8%. In FY20 General Fund revenue growth is projected to be 2.6% due to a slowing economy and the ¼ cent permanent increase in sales tax having normalized after being in effect for the entire fiscal year.

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

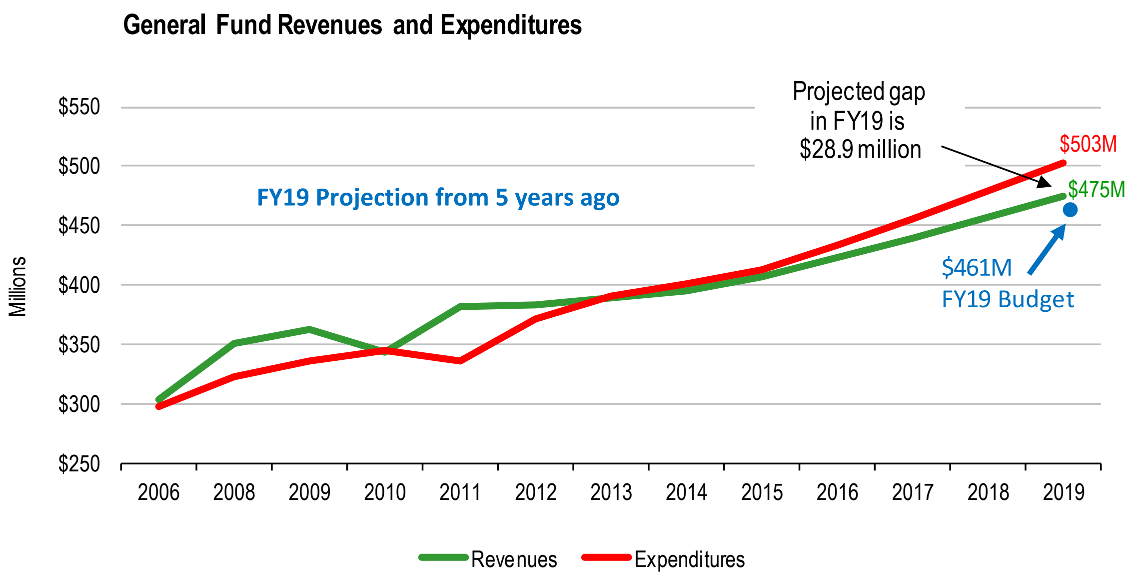
Current operating and capital issues facing the city will require careful planning to ensure a sound financial future. The five-year forecast is one of the tools the city uses to plan for continued financial health by facilitating the development of long-term strategies to deal with the issues facing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

Through FY24, revenues are expected to average 2.9% growth annually. Expenditures, on the other hand, are expected to grow at an average rate of 3.9% 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 $17.0 million in FY24. The General Fund Revenues and Expenditures chart below shows ten years of actual figures (FY09 – FY18) and projections for FY19 – FY24. In past years, when the expenditure line is above revenue line, the city used reserves (fund balance) to balance that year's revenues and expenses. In years where revenues were above expenditures, the city added to reserves.



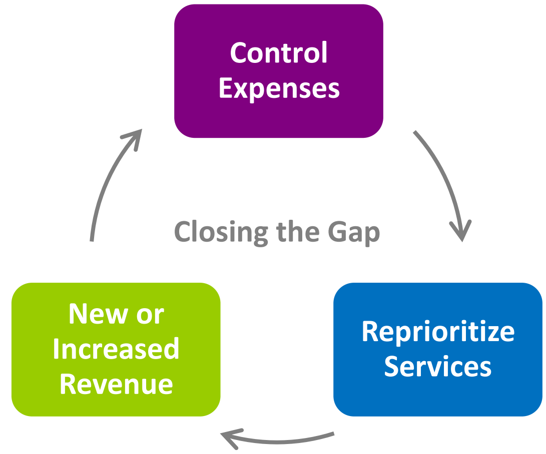
CLOSING THE GAP

State law mandates a budget be balanced or revenue exceeds expenses, so every year the city must close the gap. Projections are our best guess of what the future holds based on the information available at the time. While projections are almost always wrong they do provide a plan from which to work and bring attention to items that need to be addressed. The graph below is the General Fund projections for FY19 from five years ago. Expenses were projected to be $503 million and revenue $475 million. In reality, the FY19 budget ended up being $461 million, well below the projected expenses and revenues from five years ago. Two major events occurred in the last five years that were not projected: 1) An economic downtown in the local economy resulted in two straight years of declining revenue (FY16 and FY17); and 2) a ¼ cent increase in the sales and use tax rate increase were implemented January 1, 2018. The chart below was included to demonstrate that each year the budgeted gap was closed and projections refined using the latest data.



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, $19.3 million was added to fund balance as the ¼ cent increase in the tax rate funded 125 new positions which were mostly left vacant during FY18 as it took time to recruit and fill the positions. 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 were not able to be funded, staff analyzed requests and recommend changes that aligned to Council priorities and department's strategic business plans. In FY20, several enhancements were added to the base budget and departments were asked to submit program improvements funded by reallocating existing resources or new revenue sources as the outlook is for a slowing economy. 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 and overtime, will be key to maintaining financial balance. The most effective means to achieve a balance between controlling personnel costs while maintaining competitive salary and benefit packages for employees in the future will be to limit salary and benefit growth to within the approximate growth rates of city revenues. The city continues to work to find ways to maintain personal service cost growth within the revenues available and the demand for increased services. Improved efficiency in operations is also an avenue for controlling expenditure growth. Tight budgets have necessitated that departments continually look for ways to do more with less, thereby driving many efficiency gains, but it has also resulted in some reductions in service levels.



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

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

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

CONCLUSION

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

FIVE-YEAR FORECAST
FISCAL YEAR 2020 - 2024

The City of Oklahoma City
Finance Department
100 N. Walker, 4th Floor
Oklahoma City, OK 73102
Tel: (405) 297-2255
www.okc.gov