THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY 2017-2021

ABOUT THE COVER

The cover features an artist rendering of the 70-acre Downtown Public Park that is under construction and scheduled to open in Spring 2019. The view is from the south side of the grand lawn looking north with the downtown skyline in the background. Also visible at the north end of the grand lawn is a proposed café.

The Downtown Public Park is one of eight capital improvement projects being funded as part of MAPS 3, which is a one-cent, limited-term sales tax to pay for debt-free projects that improve quality of life.

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FIVE-YEAR
FORECAST
FY 2017-2021

By the Numbers

1%

Growth

Projected for Sales Tax in FY17

-1.3%

Projected Decline in Sales Tax in FY16

Projected 5 Year Average Expense Growth

4.5%

53%

of General Fund Revenue from Sales Tax

Projected 5 Year Average Revenue Growth

3.3%

Potential Revenue/Expense Gap in FY21

$48.7 Million

145

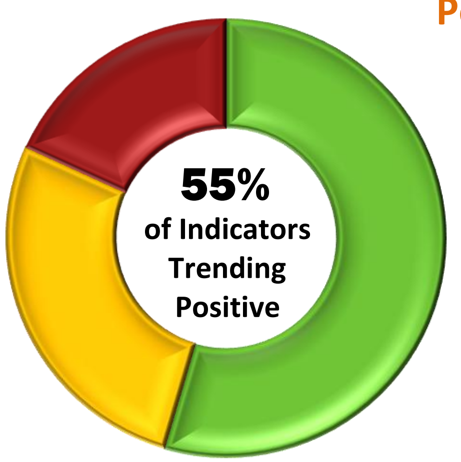
Police Positions added since FY12

Percent of Workforce in Public Safety

54%

Percent of General Fund Budgeted for Personal Services

73%



4,743

Budgeted Full-Time Positions in FY16

8

Financial Issues Highlighted

52

Financial Issues Identified by Departments

SECTION 1
EXECUTIVE SUMMARY

The Five-Year forecast provides an evaluation of the city's current financial condition as well as a view of the economic, financial, and operational outlook for the city. This 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 forecast for the coming year.

Dr. Evans developed two possible scenarios for sales tax growth. Dr. Evans' baseline forecast projects the US avoids recession and the current adverse economic cycle runs through most of 2016 before conditions stabilize in fall 2016, then modest growth in 2017. The alternative forecast projection anticipates weakness persists and recovery is more muted, posting flat growth in FY17.

The revenue forecast for the General Fund projects overall revenue growth of 2.14% next year and average annual growth of 3.3% over the five year forecast period. Sales tax remains the key revenue source for the General Fund, accounting for 53% of all revenue. Sales tax is projected to grow at 1% next year and at a rate of 3.8% per year in the following years based on historical trends.

Expenditures are forecasted to grow at an average rate of 4.5% per year over the forecast period. Personal services, the largest category of expenses, is projected to grow at a 3.6% per year due to increased salary and benefit costs, additional positions for Fire to staff one new fire station that will open within the next five years, and a desire to add additional Police positions. Growth in other expenditure categories include estimated amounts for the MAPS 3 Park and Modern Streetcar, both of which are expected to open to the public in FY19, bus replacement beginning in FY18, and general operating increases at various rates based on historical trends.

The imbalance in revenue and expenditure growth patterns means that there is a projected gap of $48.7 million by FY21.

The Five-Year Forecast document follows the same format as previous years and once again includes the Financial Trend Monitoring System (FTMS) which is designed to take multiple key indicators and consider 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 12 positive, 6 neutral and 4 negative. Also included in the forecast are the key issues facing departments over the coming five years. By laying out the many challenges that departments have identified, long-term strategies and priorities can be set to address those issues. The final sections of the forecast present revenue and expenditure trends with projections for the next five years.

Overall, the city is in a favorable financial position. However, with a contracting energy sector it is very probable that adjustments will have to be made to the forecast as the current adverse economic runs it cycle. In FY17, desired program improvements submitted by departments, may not be achievable and as a result of required budget reductions service levels may be impacted in some programs. Staff will continue to work with the City Manager to present Council with a proposed budget that balances operating needs with available resources.

The purpose of this forecast is to evaluate the City's financial condition as it relates to ongoing core and ancillary programs and services.

SECTION 2

INTRODUCTION

Armed with factually 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 this in mind, the purpose of the Five-Year Financial Forecast is to evaluate the city's financial condition as it relates to ongoing core and ancillary programs and services. With continued financial viability, the city can anticipate and meet community needs and enable additional economic diversification and growth for many 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.** Providing the forecast helps the City comply with city financial policies and practices designed to ensure the responsible utilization of public resources. State law, through the Municipal Budget Act, specifies certain policies while internal policies are established by City Charter or Council ordinance or resolution.

  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.** The forecast provides the Mayor and City Council with information to formulate long-term strategies to ensure city services are available at a level appropriate to the actual needs of the community. Annual budgeting alone can fail to serve the long-term public interest if short-term priorities reduce resources that may be required to meet imminent needs that fall beyond the one-year budget scope.

  By identifying long-term issues and assessing resources, the forecast is able to provide information to create continuity between annual budget cycles and meet 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 in a manner that provides seamless continuation of core services.

- **ACCOUNTABILITY.** The forecast serves as a resource for the general citizenry and the business community by providing a snapshot of the city's current and projected financial well-being. 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 has made great strides in developing and executing a number of significant plans that are laying the groundwork for an exciting future. This Five-Year Financial Forecast is intended to provide city leaders, citizens, and staff with the information necessary to 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 FY17 and this forecast.

Following the Economic Outlook is Section Four, Financial Trend Monitoring System. This system is designed to give city leaders and citizens a simple method 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 final *"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 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.

The final sections of the forecast, Six, Seven, and Eight provide estimates of revenues and expenditures over the next five years and the projected gap.

FIVE-YEAR FORECAST

FY 2017-2021

"The I-35 corridor megalopolis continues to pull as a magnet population and economic activity."

SECTION 3
ECONOMIC OUTLOOK

Prepared by:

Russell Evans, PhD., Executive Director
Steven C. Agee Economic Research and Policy Institute at
Oklahoma City University

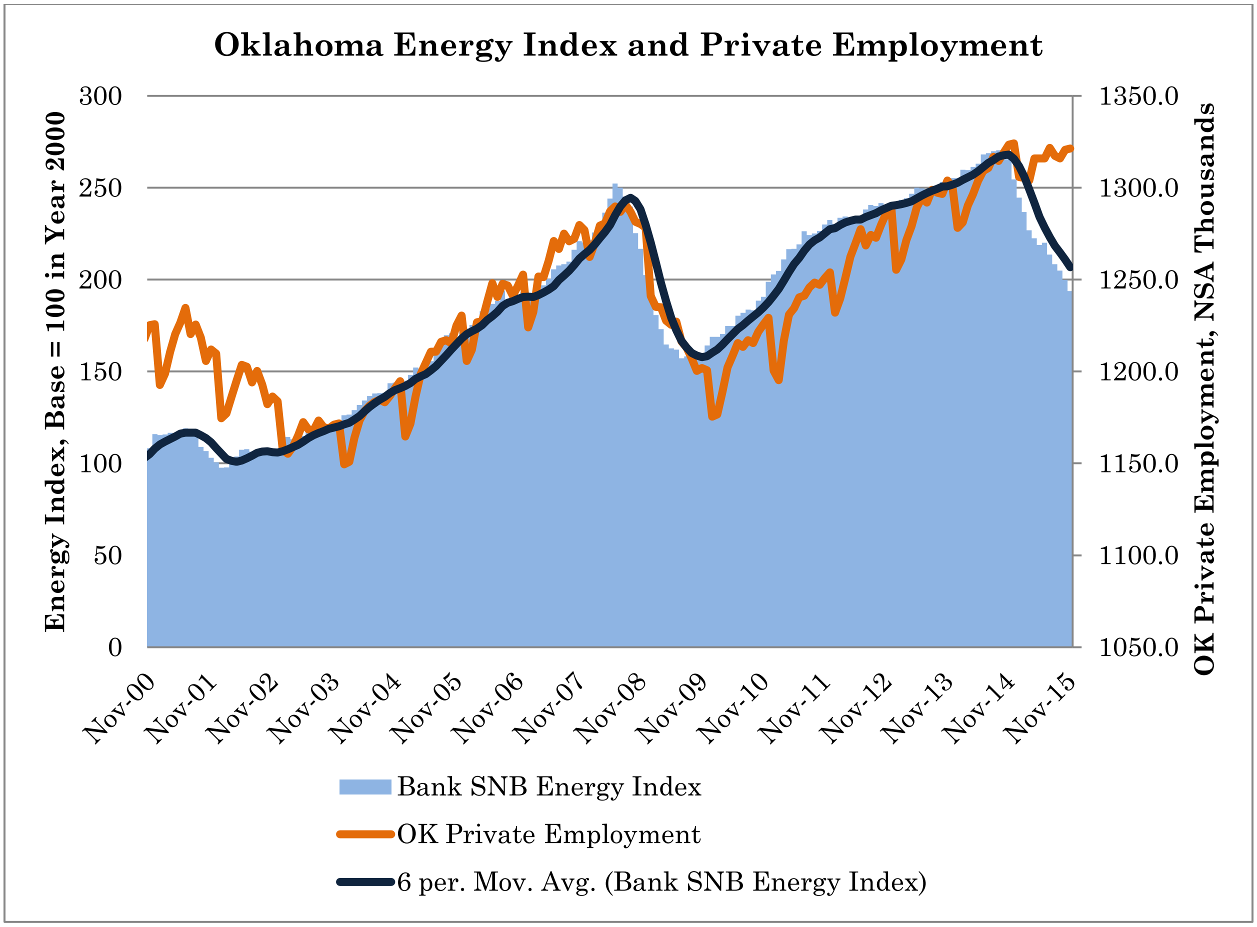
I. Introduction

Last year was described as a tug-of-war between the world's only fully functioning (or nearly so) economy in the U.S. against the underperforming economies of the rest of the world. As 2015 draws to a close, the struggle is best described as a tie with 2016 serving as overtime. Unfortunately the continued struggle implies both a disappointing year ahead and lingering uncertainty as to when conditions will improve or how much worse they can get.

The year ahead begins much as the year behind with the U.S. performing nearly to its long run average and most of the rest of the developed world struggling to do as well. Global economic forecasts range from global disappointment to global recession with the weakness stubbornly difficult to explain. The world is awash in both inexpensive commodities led by the collapse in crude oil prices and liquidity as quantitative easing has moved benchmark European interest rates into negative territory, testing the limits of the zero lower bound. Lingering global economic weakness caps any optimism of a recovery in crude oil prices and, by extension, any optimism of a return to robust Oklahoma economic activity.

The Bank SNB Oklahoma Energy Index depicts the stark reality facing Oklahoma's primary industry and the historic correlation between oil and gas activity and the state's total private employment. Of particular note is the movement in 2015 as the correlation faltered – the sharp contraction of the energy industry was matched by a stubbornly persistent lateral movement in statewide employment.

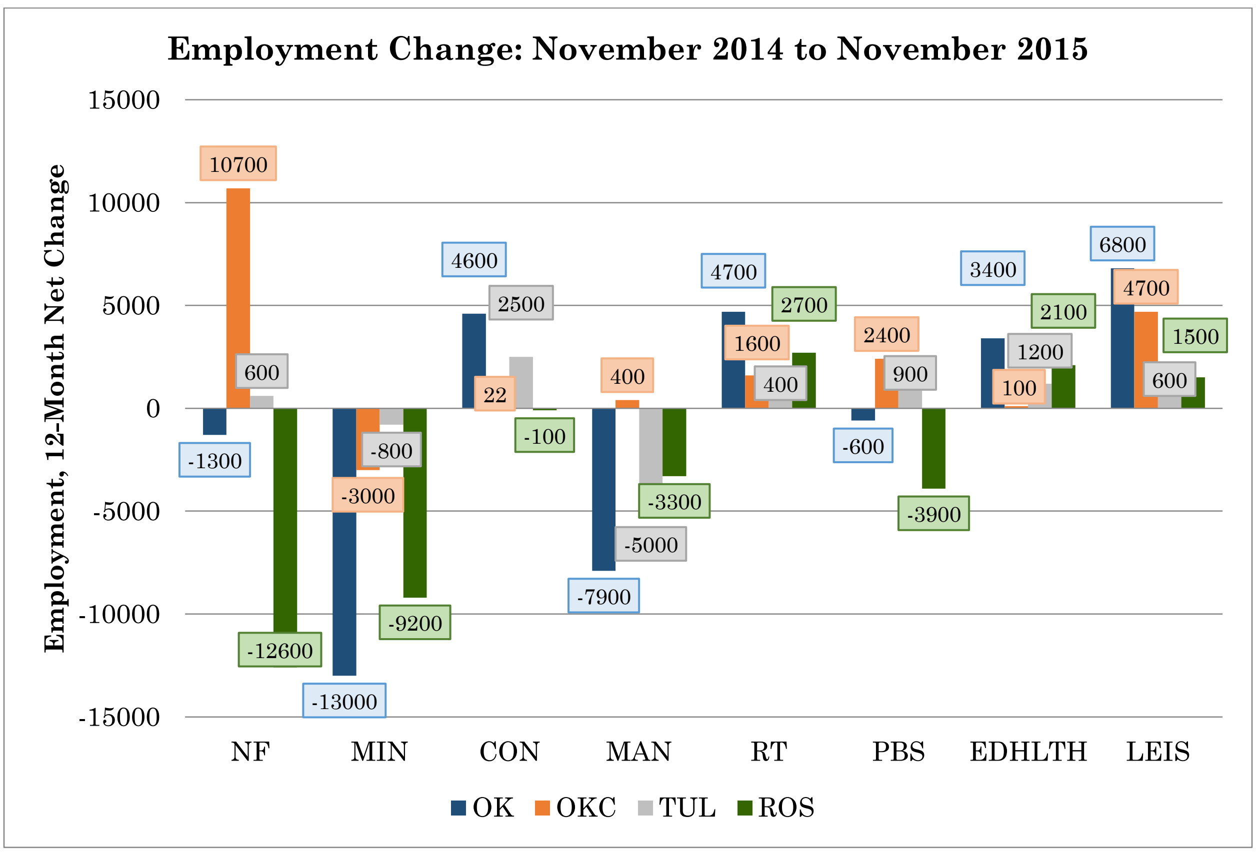
Figure 1



The lateral movement in statewide employment disguises the reality that the economic challenges faced by the state in 2015 were hardly distributed uniformly. Positive inertia and an enviable geography along the rapidly growing I-35 corridor favored Oklahoma City. In fact, Oklahoma City's economic performance in 2015 outpaced the forecast presented last year. Tulsa benefited from its urban geography as well, although its location to the north of and somewhat removed from the I-35 corridor provided less protection from the economic conditions then did the more favorable location of Oklahoma City. The economic pain of 2015 was concentrated in the rest of the state and most acutely in the rural areas left devoid of active oil and gas drilling and production. Figure 2 reports the 12-month net change in employment (November 2014 to November 2015) for each area of the state by major industry sector.

The November 2015 to November 2014 comparison reveals some interesting realities of the previous year. Nonfarm employment in November 2015 was down 1,300 jobs for the state, but up 10,700 jobs in Oklahoma City and up 600 jobs in Tulsa, suggesting the drop in nonfarm employment can be attributed to the 12,600 fewer jobs in the rest of the state (ROS). Mining (oil and gas) jobs are down 13,000 statewide with 3,800 of the lost jobs coming from the state's metropolitan areas and the remainder (9,200 jobs) from the rest of the state. Manufacturing is up 400 jobs in Oklahoma City even as manufacturing employment statewide is down by 7,900 jobs (down 5,000 in Tulsa and 3,300 in the rest of the state). The remainder of Figure 2 tells much the same story.

Figure 2



While Oklahoma City benefits disproportionately from favorable geography, the long run forces yielded to the short run realities in the fall, foreshadowing the challenges that lie ahead. The worst is yet to come as Oklahoma City moves into its roughest stretch yet with the most acute economic pain expected to linger at least through the summer of 2016.

In creating a baseline economic forecast for the state and Oklahoma City metro area, a few background issues must first be resolved. First, a baseline expectation for the price path of crude oil must be established. Forecasting crude oil prices is admittedly a fool's errand – and a well-documented fool's errand at that (see Hamilton 2008, Understanding Crude Oil Prices). Nonetheless a baseline expectation is necessary to anchor the economic forecast. Second, national economic expectations must be established. Finally, appropriate weighting must be given to both short run and long run forces that influence current levels of economic activity. Each of these background issues is discussed in turn in the subsequent section, followed by a formal summary of the economic outlook for Oklahoma and Oklahoma City. The full forecast tables for the U.S., Oklahoma, and Oklahoma City outlook are provided in the appendix.

II. The Influence of Energy, Geography, and the National Economy

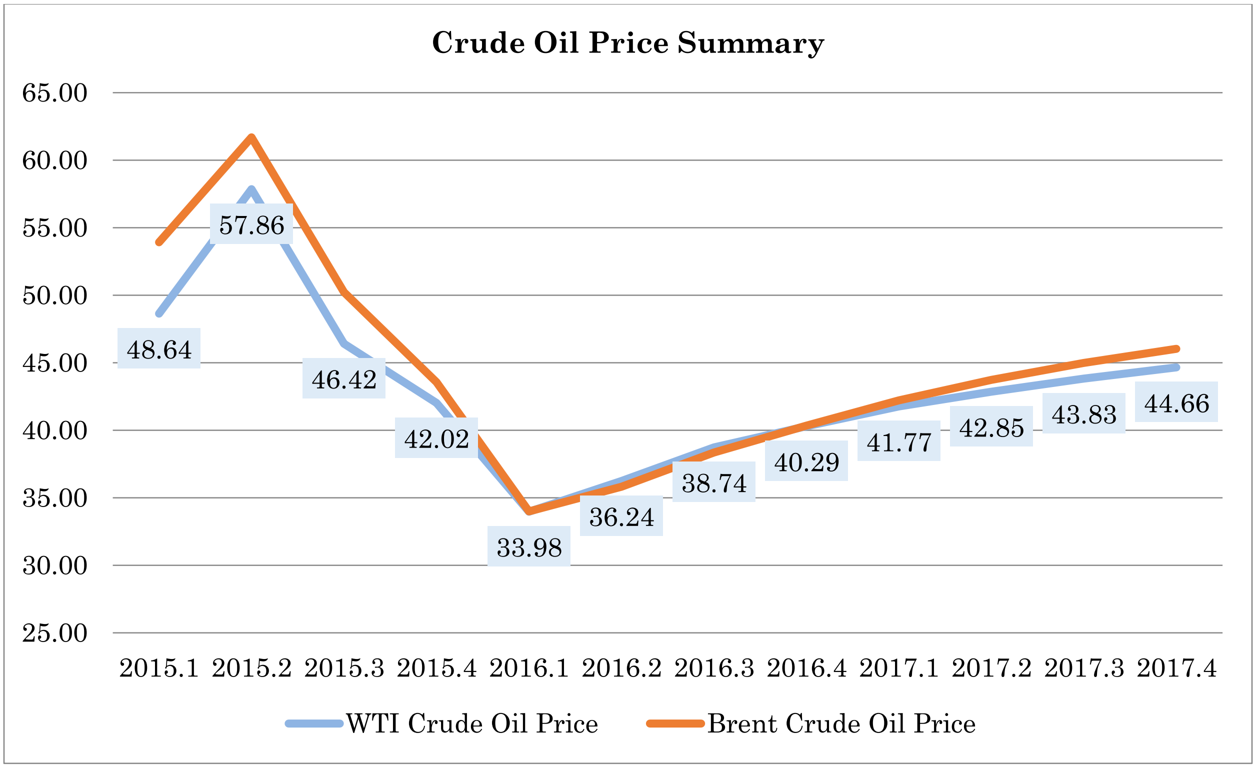
Heading into 2015 it was noted that the world's economy was being powered by a single functioning engine in the U.S. economy. Little has changed since. The world's economies, both developed and developing, are struggling to break free of the economic malaise that has come to characterize recent economic history. The economic malaise is inevitably accompanied by a lesser demand for energy and the role of global economic growth (or the lack thereof) is often overlooked in explanations of global petroleum prices.

In fact, global energy prices are being hit from both sides – an excess supply and waning demand. Well productivity enhancements are maintaining U.S. crude oil production levels in spite of more than a year of capital reductions while foreign producers like Iraq and Libya have proved resilient in production in spite of domestic turmoil. Additionally, Iran (the fourth largest producer of crude oil) anxiously prepares to return to global markets, as international sanctions are lifted and OPEC recently announced it would establish as its production target current production levels in excess of 31 million barrels per day.

The combination of persistent supply and lack of demand are expected to persist at least through 2016 and very likely into 2017. A supply correction is slowly developing in the U.S. but is as yet unlikely to be accompanied by cohesive OPEC action. The best prospect for an abrupt turn in crude oil prices seems to be a breakout of economic activity and a return to robust demand for energy. Unfortunately, this turn would be almost as surprising as a substantive change in OPEC policy.

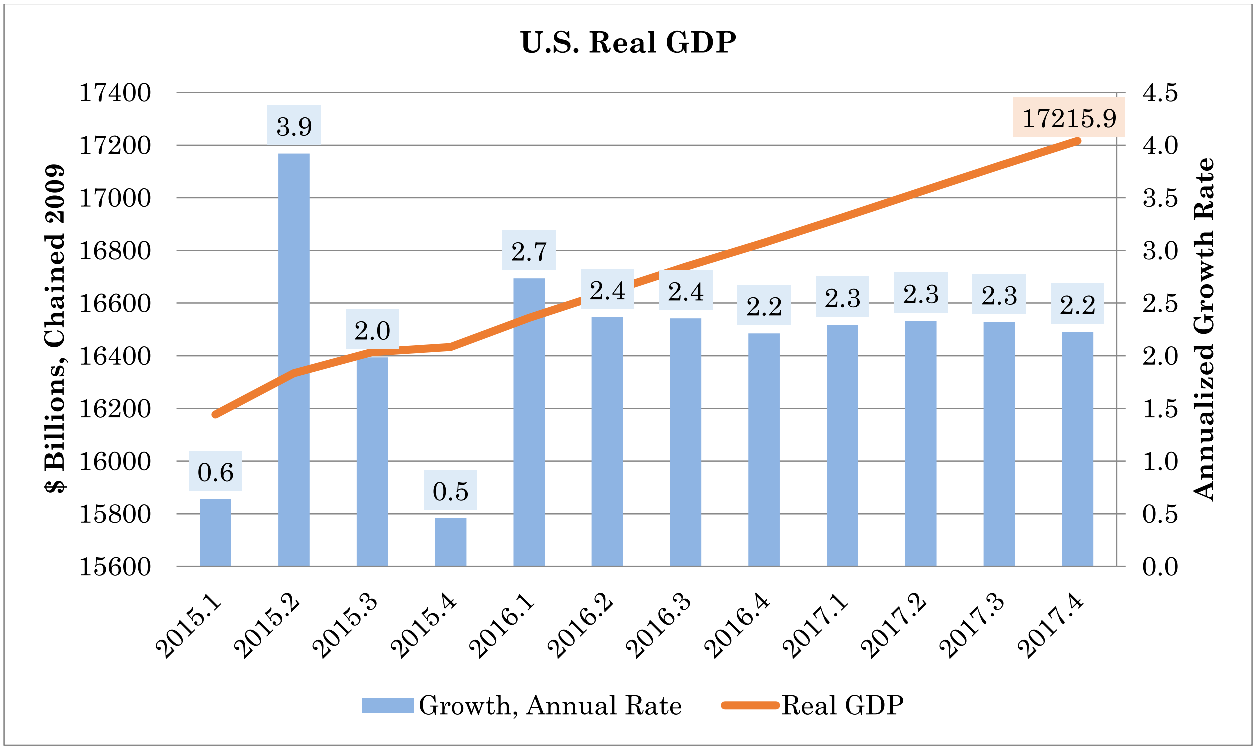
The baseline expectation is that oil prices bottom in the first quarter of 2016 and chart a slow recovery averaging $40.29 in the fourth quarter of 2016.

Figure 3



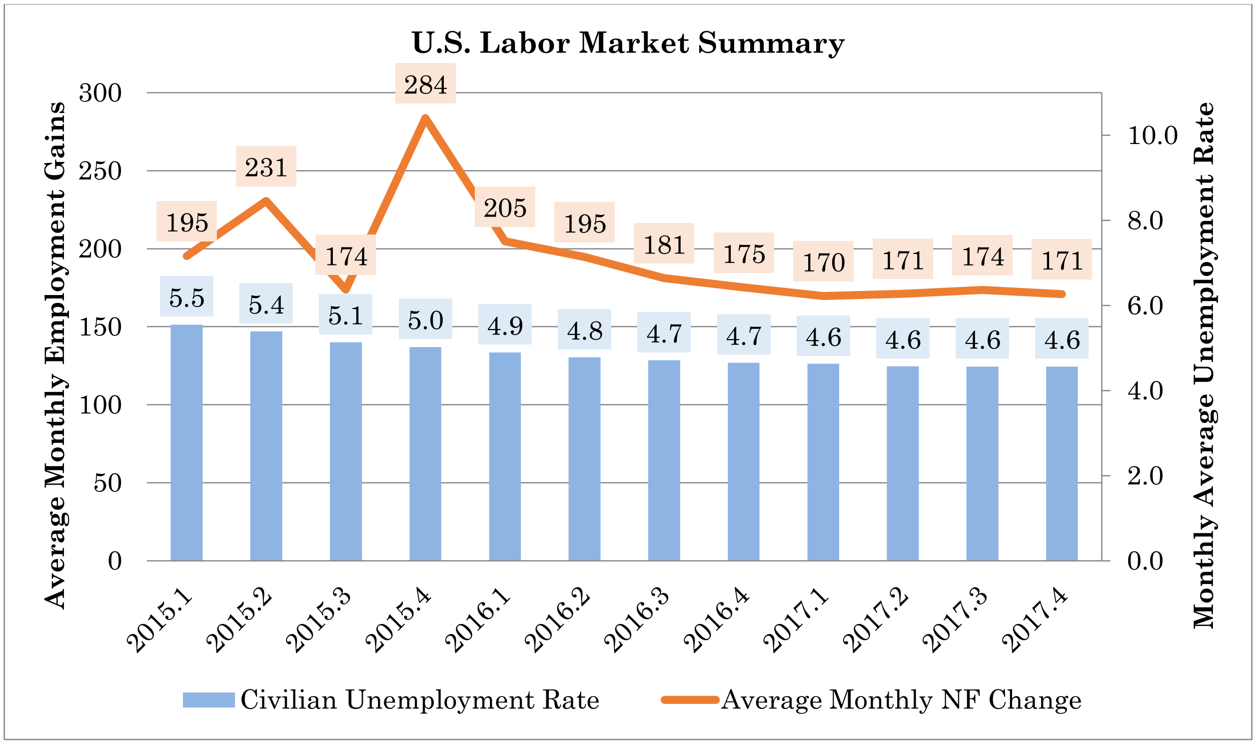
National economic conditions are discouragingly easy to predict as they continue their steady march towards mediocrity. National conditions are commonly and aptly described alternatively as the new mediocre, secular stagnation, and almost average. Primary macroeconomic measures of GDP, the U.S. labor market, inflation, and interest rates are all trending towards though as yet not quite to their long run average. Each is presented and discussed briefly in turn below.

Figure 4



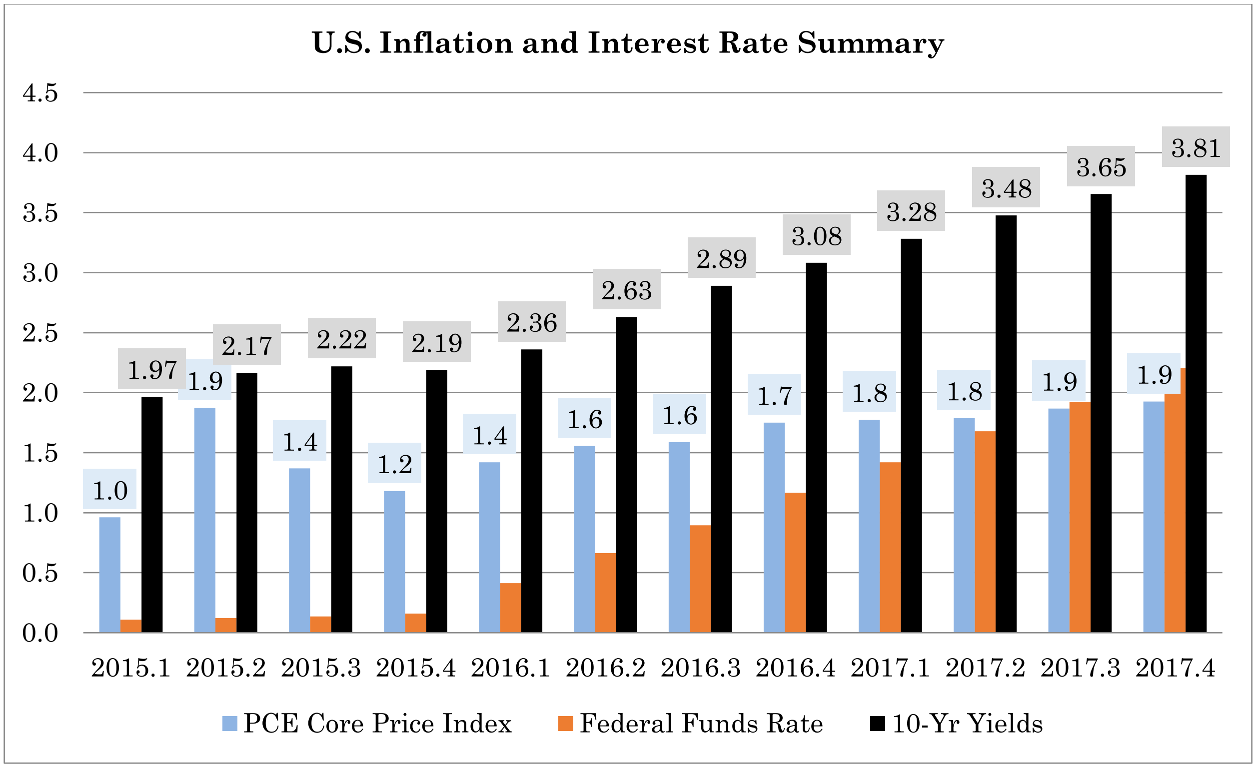
U.S. real gross domestic product is expected to grow by 2.5% in 2016 and again by 2.3% in 2017. Falling prices across the commodity complex and still accommodative monetary policy (in spite of the Federal Reserve's initial increase in the federal funds rate) will fail to generate robust growth as weakness in China, Brazil, and much of Europe constrain economic activity. The forecast is characterized by substantial downside risk as the balance of economic forces seems to be shifting towards the global malaise.

Figure 5



The U.S. labor market continues to improve. Monthly job creation proceeds at a pace best described as persistently modest. Job creation is expected to slow in 2016 to an average monthly gain of 190,000 jobs while the unemployment rate trends towards 4.5% on the back of historically low labor force participation rates. The stated unemployment rate understates the true slack still present in the labor market more than six years removed from the great recession. Labor market slack portends a continued absence of upward pressure on wages.

Figure 6



Inflation as measured by the personal consumption expenditures core price index (the Federal Reserve's preferred measure of inflation) is trending towards policymaker's long run target of 2%. As inflation moves towards target levels and the U.S. economy shows signs of being able to maintain modest economic momentum in spite of broader challenges, the Federal Reserve has begun to move towards policy normalization. In December, the federal funds rate saw its first increase (25 basis points) in nearly a decade. The Federal Reserve is expected to move deliberately towards a normalized federal funds rate.

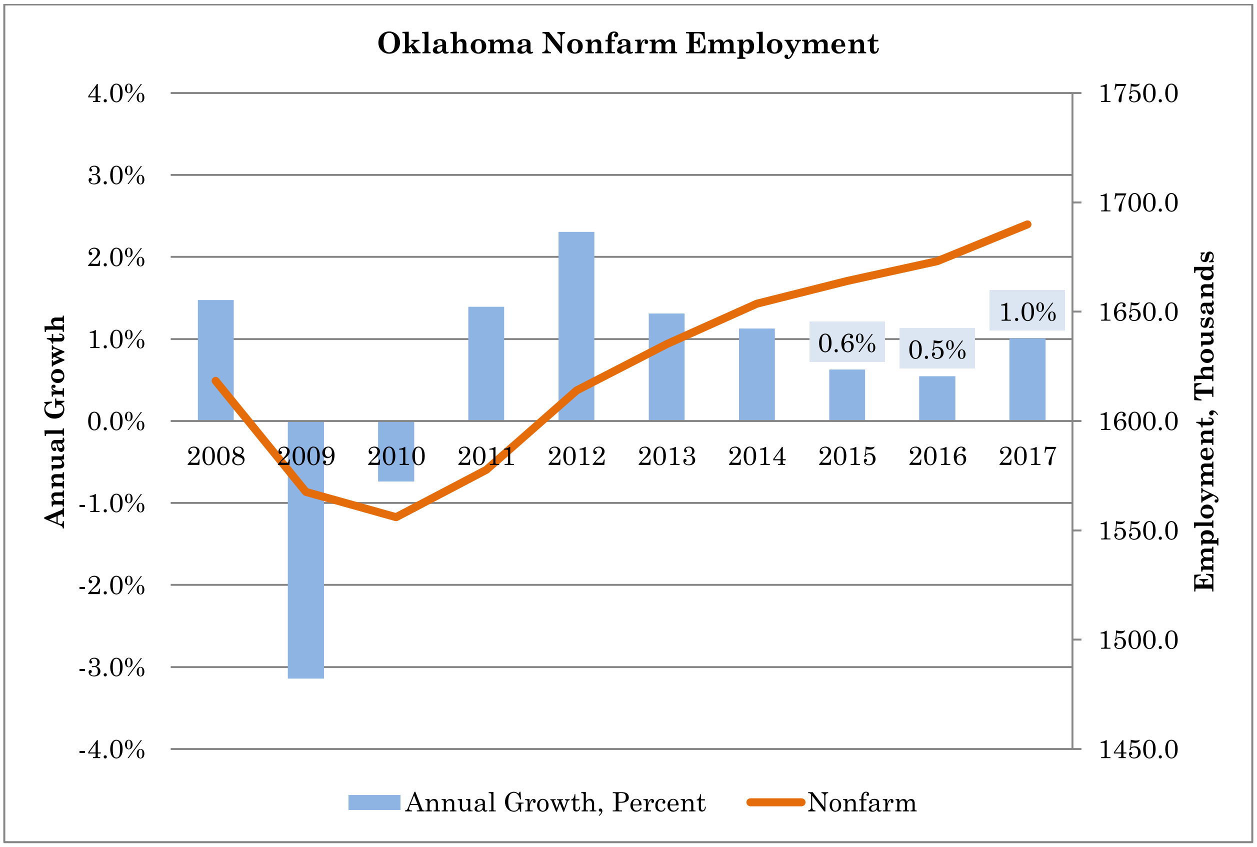
Economic performance is determined by both short run and long run forces. The short run forces are self-evident to Oklahomans – a bust every bit as severe as the boom that preceded it. Hope remains that the duration of the bust will prove manageable with a return to even moderate levels of oil and gas activity sooner rather than later. The short run weakness in the state's primary industry is joined by a rather modest national economy and a disappointing global economy.

In the long run, however, people and economic activity continue to move from northeast to southwest, concentrating in dense urban clusters of metropolitan areas known as a megalopolis. The I-35 corridor megalopolis continues to pull as a magnet population and economic activity. Population growth rates in Oklahoma City over the last five years exceed those of Tulsa and areas of the corridor farther to the north. Indeed, population and employment growth rates now place Oklahoma City at the bottom of the top tier of I-35 growth cities (Dallas, Austin, San Antonio, and Houston). Where short run forces (a commodity price collapse) represent an acute condition associated with volatile swings in economic activity, long run forces are chronic in nature, moving imperceptibly slow but undeniably shaping the economic landscape. The long run forces of geography will continue through the current episode and continue to bode well for the economic future of Oklahoma City. The year ahead will serve as a battle between the positive long run forces at play in the Oklahoma City economy and the acute short run pain of weakness in the oil and gas sector.

III. The Oklahoma Economic Outlook

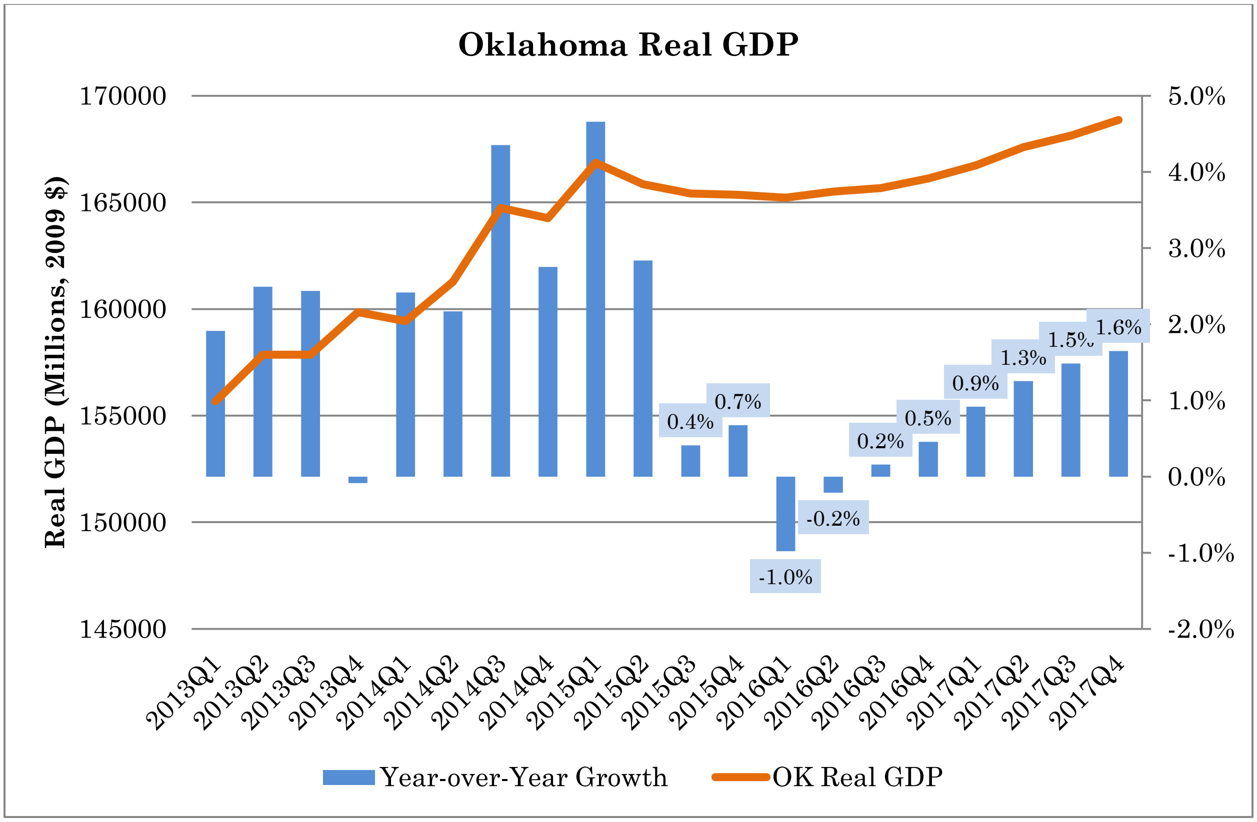
Baseline expectations are for a largely lateral movement in the state's economy in 2016, disguising the truth of a modest expansion in Oklahoma City being offset by economic contraction elsewhere.

Figure 7



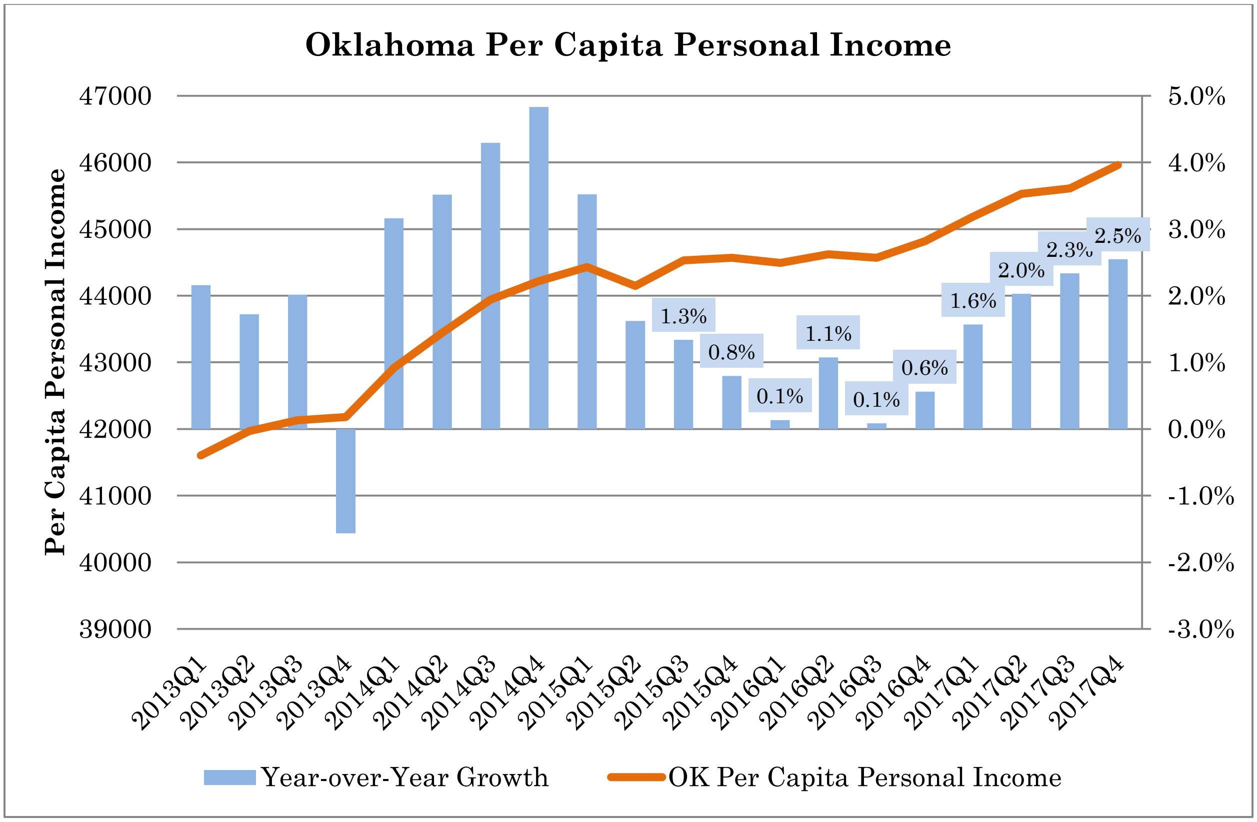
Oklahoma nonfarm average monthly employment levels grew at a 0.6% pace in 2015. Baseline expectations are for nonfarm employment in the state to hold near current levels, expanding by a modest 0.5% in 2016 and 1.0% in 2017. Substantial downside risks remain as the already tenuous state conditions are ill-equipped to survive even a modest adverse shock to the economy.

Figure 8



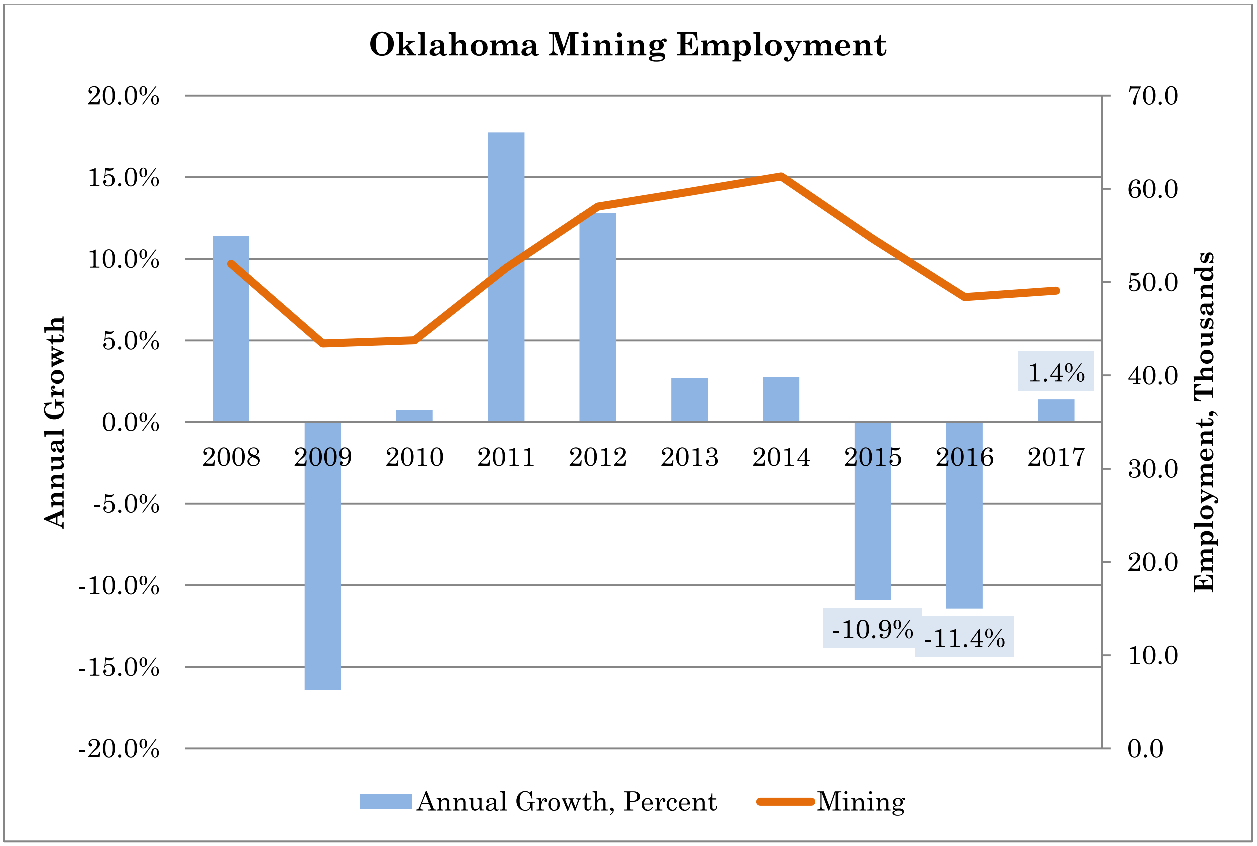
Oklahoma real GDP contracted in the second quarter of 2015 as the method of estimating state level GDP is strongly influenced by the falling value of the state's oil and natural gas commodities. The continued fall in crude oil prices will exact its toll on state gross domestic product, contracting on a year-over-year basis through the first half of 2016. Gross domestic product is expected to hold level in the second half of 2016 before expanding again modestly in 2017.

Figure 9



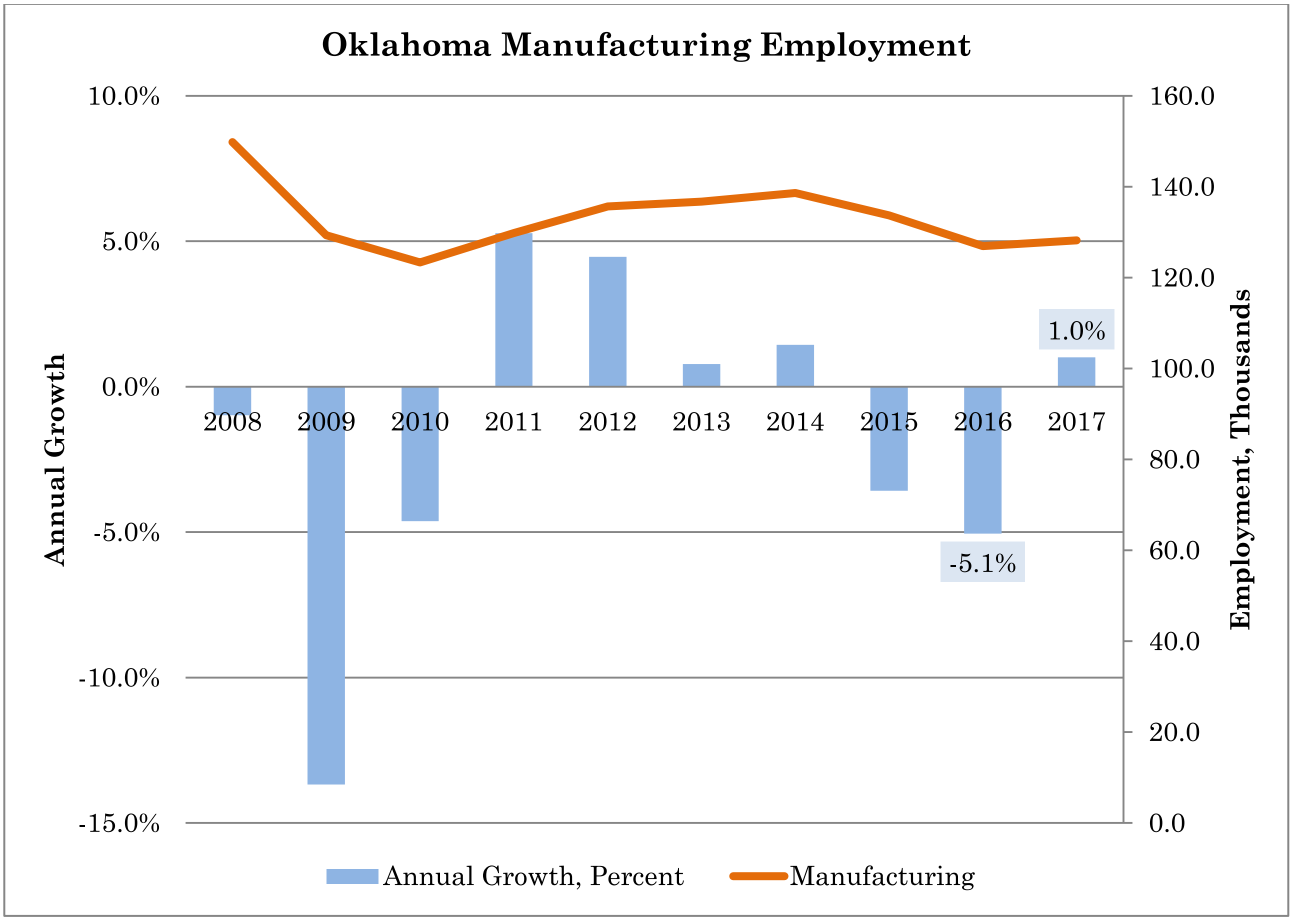
From the first quarter of 2014 through the first quarter of 2015 Oklahoma per capita personal income grew at year-over-year rates in excess of 3%. Weakness in the state's economy will manifest itself in a marked slowdown in personal income growth. Per capita personal income growth will slow considerably in the second half of 2015 and struggle to move laterally in 2016.

Figure 10



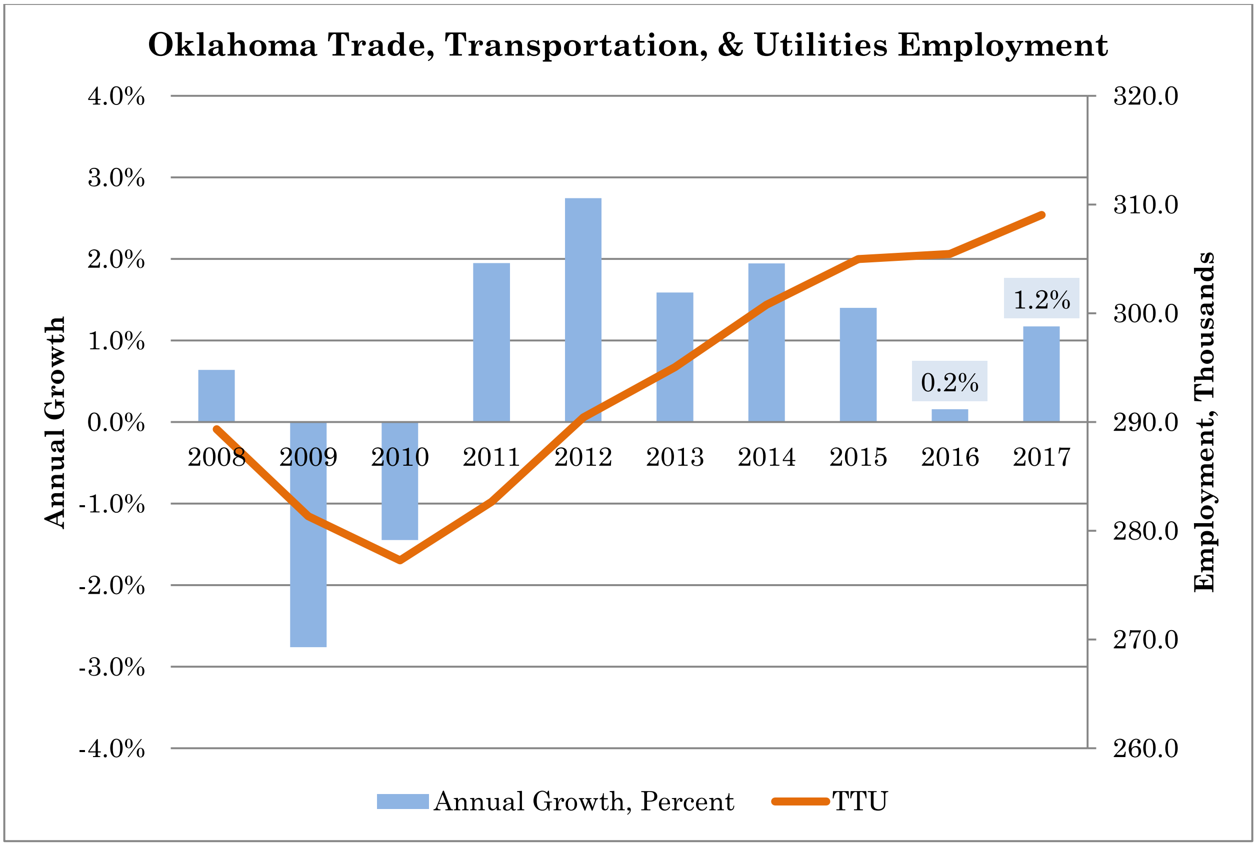
Mining employment contracted sharply in 2015 as falling oil prices and the prospect of a prolonged period of low prices became a reality. The baseline expectation is for the state to shed just over 2,000 additional oil and gas jobs leaving average monthly payroll levels in 2016 11.4% below the 2015 average. Price recovery will allow the industry to gain its footing by late 2016 and expand modestly at a 1.4% pace.

Figure 11



Oklahoma manufacturing employment contracted with oil and gas employment in 2015 with the thrust of the contraction felt in Tulsa. Manufacturing employment will continue its decline in 2016 as oil and gas operations remain subdued. Manufacturing payrolls are expected to contract by 5.1% in 2016 before expanding by 1% in 2017.

Figure 12

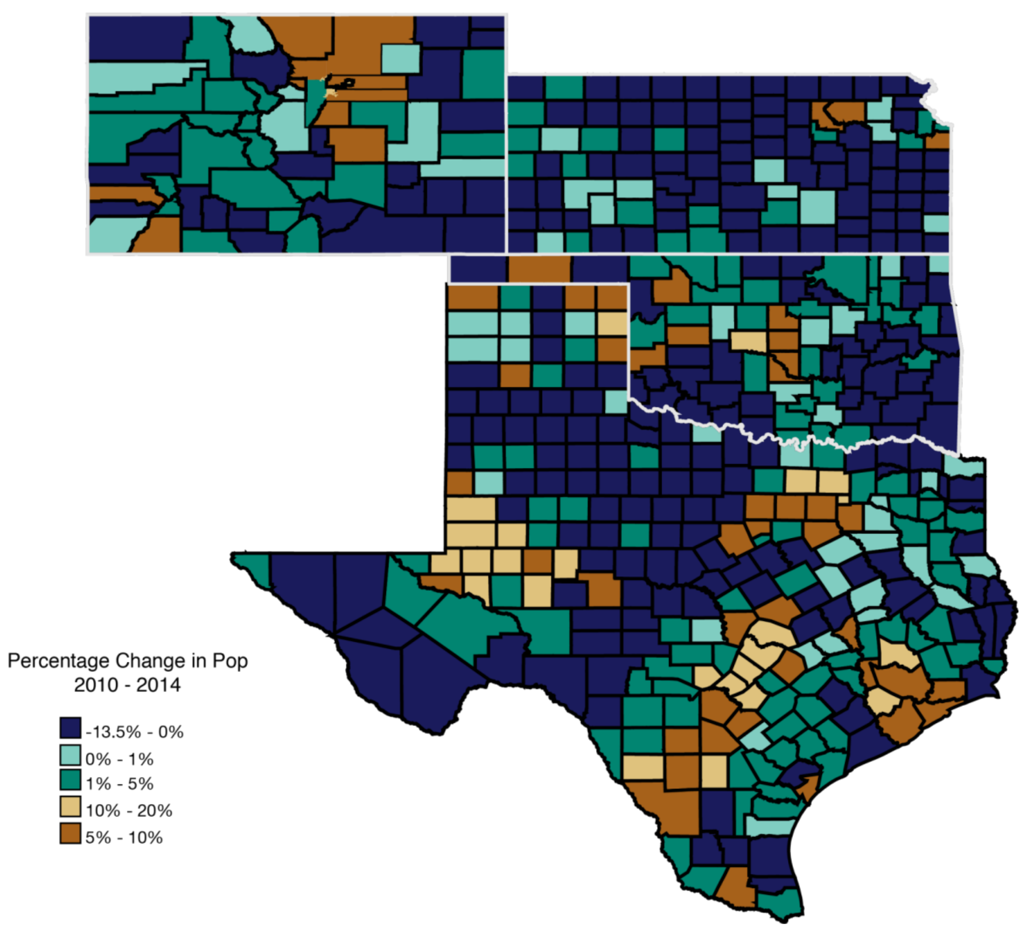


Stagnant incomes in 2016 portend a slowdown in the pace of trade, with wholesale trade impacted directly by the reduction in oil and gas activity and retail trade indirectly as falling incomes lead a consumer retrenchment. Activity in the TTU super sector will be flat overall in 2016 before growing by 1.2% in 2017.

IV. The Oklahoma City Economic Outlook

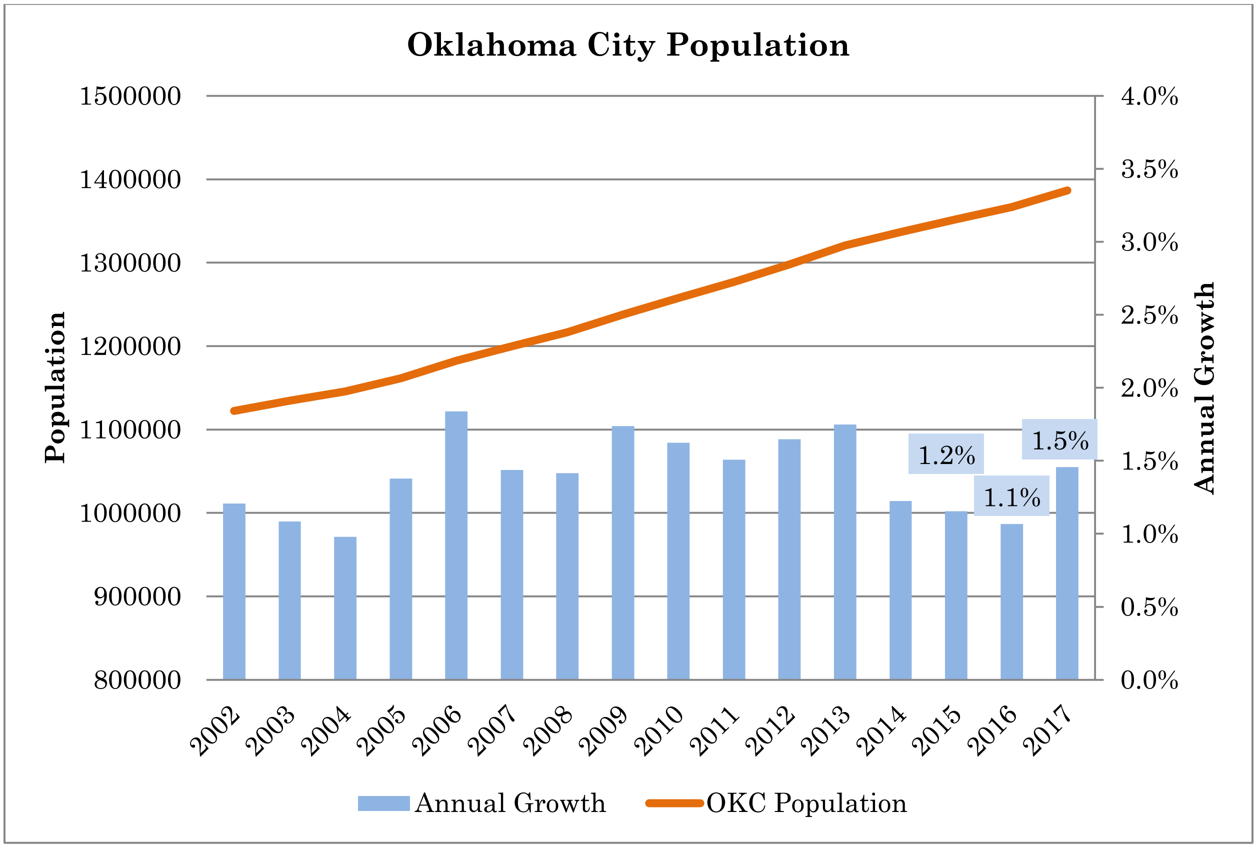
People and economic activity continue to move southwest across the United States. As they do so, both are concentrating in dense, urban clusters of cities referred to by geographers as a megalopolis. Among the fastest growing megalopolises in the U.S. is the I-35 corridor running from southern Texas through Oklahoma City and onto Kansas City. The map below shows the 4-year population growth rates by county in Texas, Oklahoma, Kansas, and Colorado. The sea of blue counties represents population declines and is concentrated in rural areas far removed from major transportation corridors. The green shaded counties experienced population growth over the period, but at modest rates of no more than 1% per year.

Figure 13



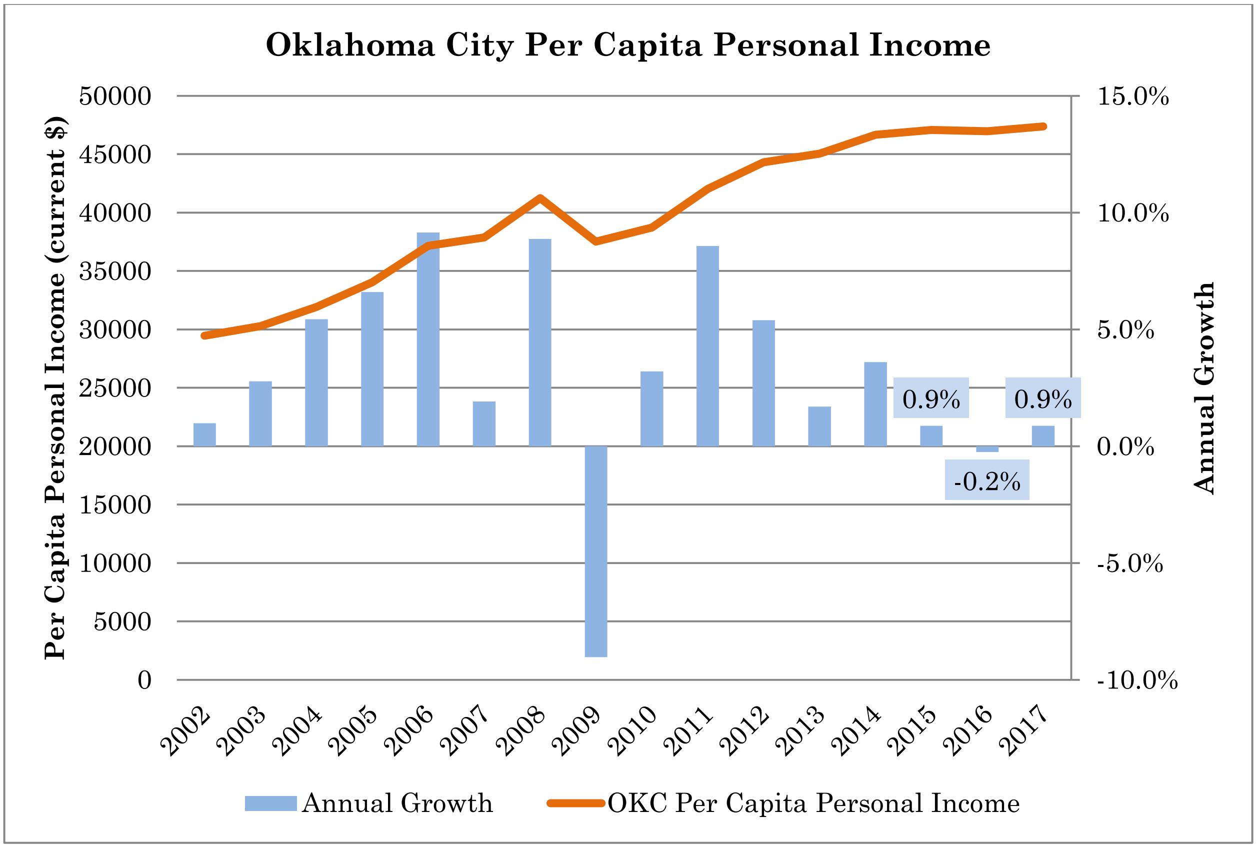
The brown-shaded counties, in contrast, depict counties with unusually large population growth rates ranging from 5% to 20% over the 4-year period. These counties are concentrated along transportation corridors generally and the I-35 corridor specifically. The Dallas MSA continues to push northward and close the gap to the southern edge of the Oklahoma City MSA. The population movements depicted on the map represent slow but persistent movements reshaping the economic landscape. Oil booms and busts serve as short run accelerants or impediments only, but are unlikely to stem the flow of these powerful forces. Oklahoma City continues to establish an economic identity singular to all other areas of the state and will continue to do so in spite of the short run economic weakness looming in the first half of the year.

Figure 14



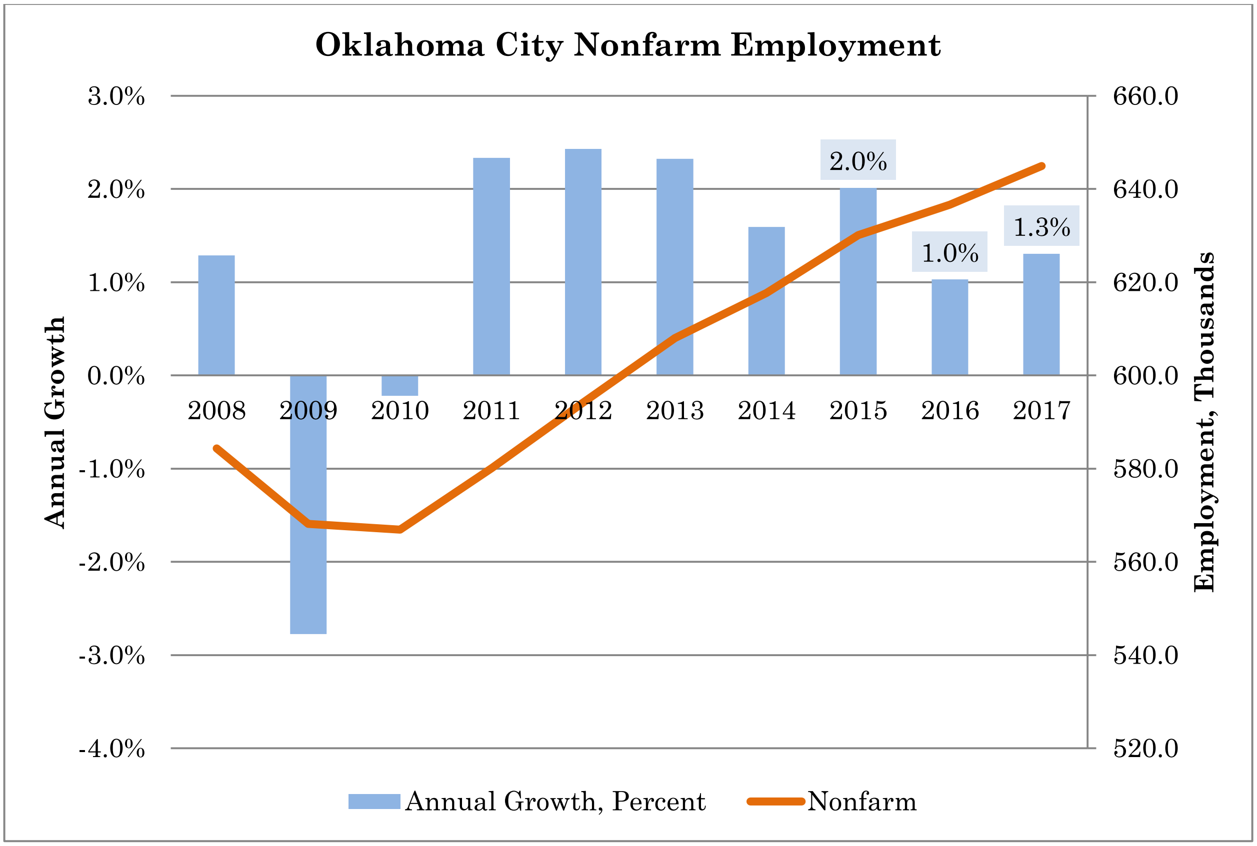
Population growth rates in Oklahoma City averaged more than 1.5% per year for the five years following the great recession. Economic weakness slowed the growth rate in 2015 to an estimated 1.2%. Lingering weakness will further suppress population growth rates in 2016. The Oklahoma City population is projected to grow at barely 1% in 2016 before returning to its long run average rate of 1.5% in 2017.

Figure 15



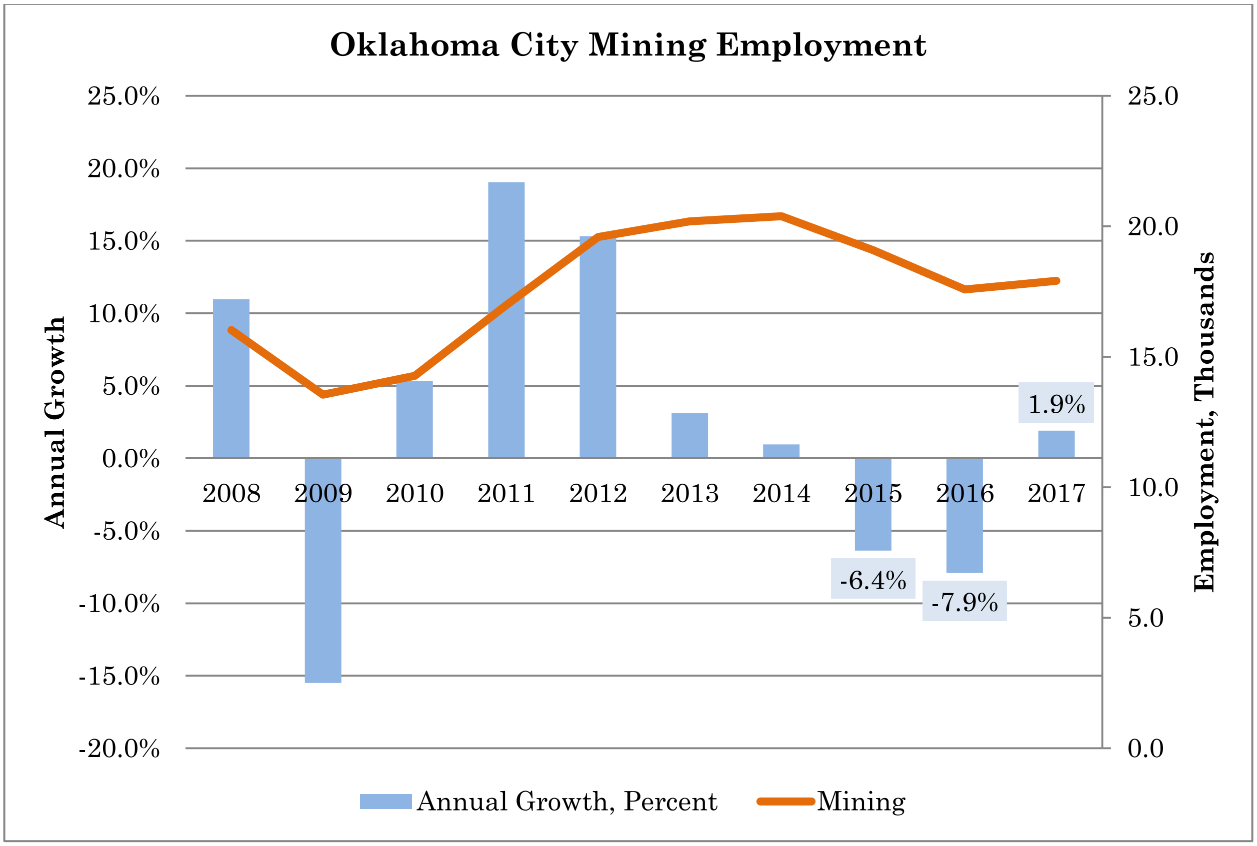
Oklahoma City per capita income contracted sharply in 2009 when a national financial crisis thrust the economy into a great recession of indeterminate length and with it turned oil and natural gas prices sharply lower. The current year is similar in that commodity prices have fallen sharply but different in that, as yet, no national recession has developed. Regardless, Oklahoma City per capita personal income is expected to contract modestly in 2016 with considerable downside risks still admitting the possibility of a much sharper contraction. Per capita personal income is expected to return to modest growth of 0.9% in 2017.

Figure 16



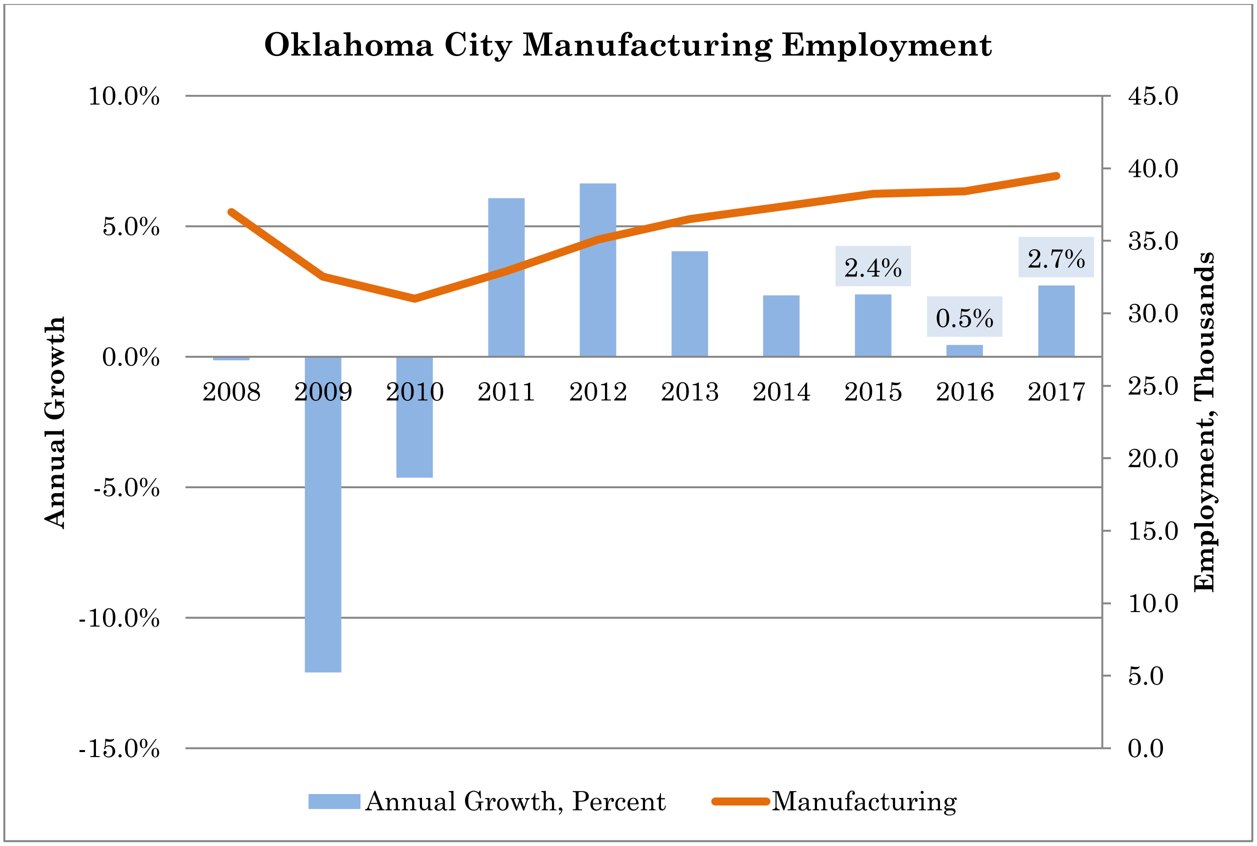
Oklahoma City pushed through the weakness of 2015 adding jobs despite the overall contraction experienced in much of the state. Monthly average nonfarm payrolls grew by 2% in 2015 as the influence of the persistent forces of geography provided some insulation against weakness in the city's primary industry. It is unlikely nonfarm employment will fare as well in 2016. Oklahoma City nonfarm employment is expected to grow by just 1% in 2016 and 1.3% in 2017.

Figure 17



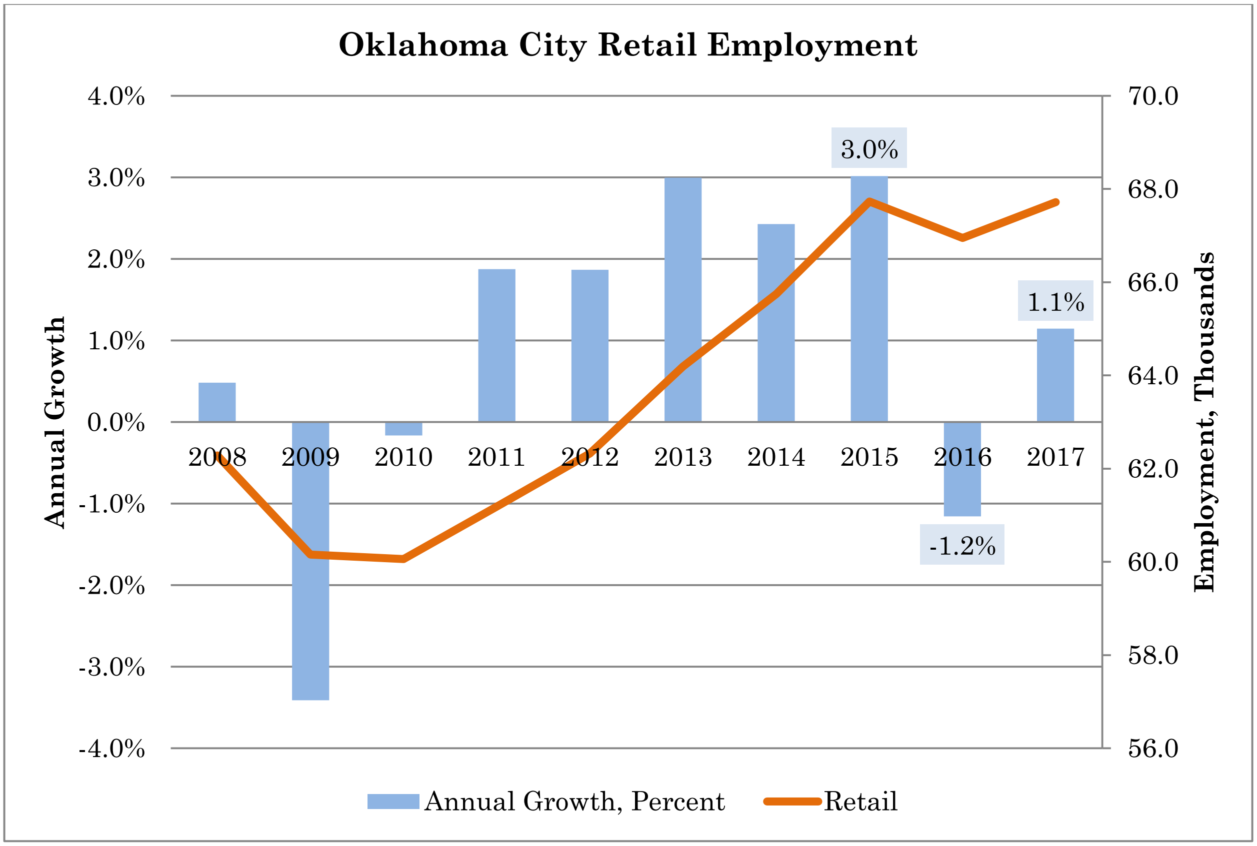
Oklahoma City mining employment is expected to contract again in 2016 after experiencing a sharp 6.4% decline in 2015. Job losses will give way to a bottom in oil and gas employment by the third quarter of 2016. Given current projections of both national economic conditions and commodity prices, it is anticipated that mining employment will firm by late 2016 and post modest gains of 1.9% in 2017.

Figure 18



Manufacturing employment contracted sharply across the state in 2015 led by the manufacturing subsectors that complement oil and gas extraction and are located disproportionately in the Tulsa MSA. Oklahoma City stands out in sharp contrast as it added manufacturing jobs in 2015 at a robust 2.4% pace and is expected to hold those gains in spite of economic weakness in 2016. Baseline expectations are for the manufacturing sector to grow by 0.5% in 2016 and 2.7% in 2017.

Figure 19



The population growth experienced in Oklahoma City over the last five years has been necessarily accompanied by growth in those sectors that follow population: health services, leisure services, and retail trade. A lower than average seasonal add to retail employment will combine with the expected weakness in 2016 and lead to a contraction in retail employment. Baseline expectations are for a contraction of 1.2% in 2016 to be followed by retail employment gains of 1.1% in 2017.

V. The Oklahoma City Fiscal Outlook

The previous discussion highlighted the fact that Oklahoma City's economic performance exceeded in many ways the baseline expectations established in last year's outlook report. Unfortunately, the same cannot be said for the city's fiscal performance. A few comments on the sales tax forecast merit mention before turning to a presentation of the baseline fiscal year 2017 outlook.

First, it is worth emphasizing again the importance of the forecast window in developing the fiscal outlook. Model performance deteriorates as the forecast window expands from a six-month outlook to an eighteen-month outlook. This model deterioration is not unexpected as the fiscal outlook is tied to economic performance and forecasting economic shocks – those influences not yet reflected in the data – becomes more difficult over longer horizons. Second, the city's fiscal performance may be a function of both long run and short run forces leaving to the forecaster the job of striking the appropriate balance between these influences. Both of these discussions (the importance of the forecast window and the importance of short run versus long run forces) have received considerable focus in previous fiscal narratives. A third point of discussion has emerged from the present fiscal year experience that merits consideration – the influence of the broader state economy on local fiscal performance.

The discussion last year focused on the balance of influences between short run weakness in the city's core industry and the long run strength manifest in recent population growth. The table below is re-created from last year's report.

Collections by Fiscal Year

Fiscal Year	Annual Collections - Mixed View	Percent Change	Annual Collections - Short Run Dominates	Percent Change
2011-2012	$388,090,022	5.65%	$388,090,022	5.65%
2012-2013	$404,860,420	4.32%	$404,860,420	4.32%
2013-2014	$415,869,344	2.72%	$415,869,344	2.72%
2014-2015	$428,304,570	2.99%	$425,419,364	2.30%
2015-2016	$437,499,116	2.15%	$427,747,071	0.55%

Source: Steven C. Agee Economic Research and Policy Institute

The year-end projection for fiscal year 2015 growth was 2.99% under a scenario in which the long run inertia was given a voice in the model compared to a projected year-end growth of 2.3% in a model where the long run influence was more subdued. Actual year-over-year growth for fiscal year 2015 came in at 2.9% suggesting on the surface that long run forces are important. A deeper look may reveal otherwise. The following quote is pulled from last year's report:

"If more voice is given to short run shocks, growth begins to slip in the fourth quarter of fiscal year 2015 resulting in year-end growth of 2.3% and holds mostly flat in fiscal year 2016 at 0.55%."

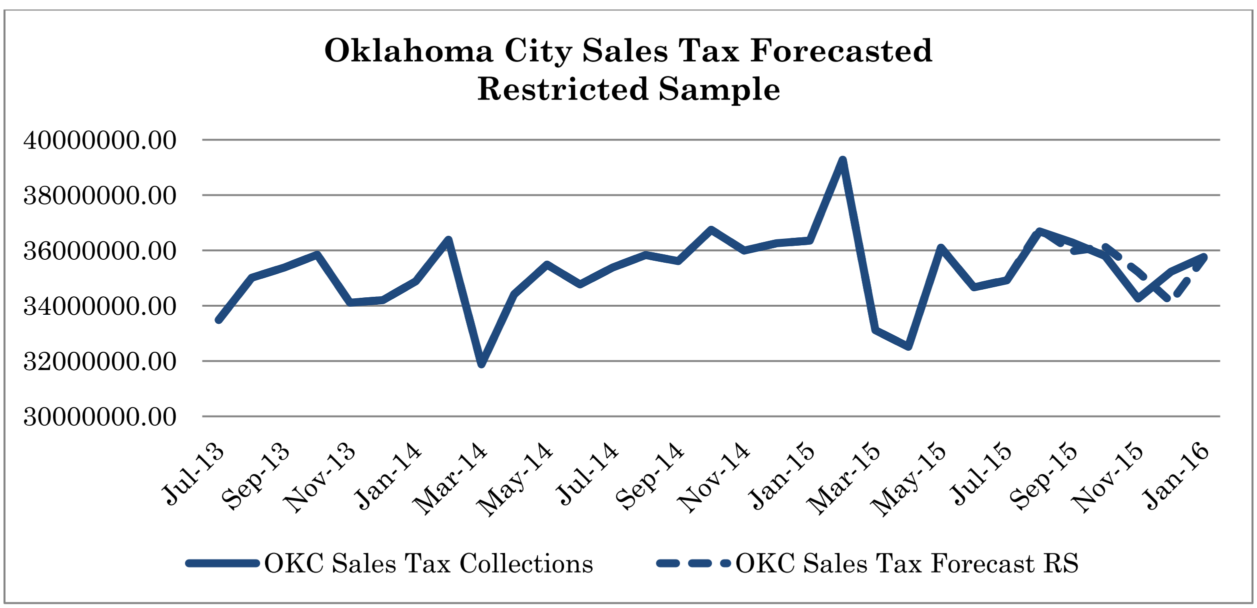
In fact, growth did begin to slip in the fourth quarter of the fiscal year but was buoyed by relatively strong checks in February and March. The influence of short run economic weakness was manifest in the sales tax collection data by the end of the last fiscal year and while longer run forces provided some insulation to local economic activity, little insulation was offered to local fiscal activity.

The baseline expectations established last year for fiscal year 2016 were built around alternative perspectives. The first gave voice to long run influences with a forecast of 2.15%. The second model was built around the idea that short run influences dominate fiscal realities and offered a forecast of just 0.55%. Both scenarios will prove to be overly optimistic as the city moves into the second half of this fiscal year.

What is interesting about this fiscal year is the way in which the city's economic performance diverged from its fiscal performance. Nonfarm and private sector payrolls were stronger than expected with gains in manufacturing, retail, and other sectors outpacing losses in the mining sector. The economic strength, however, was not reflected in municipal sales tax collections. While many possible explanations for this divergence exist, two come to the forefront as the most likely candidates. First, fiscal weakness may reflect behavioral responses to statewide economic weakness. Households that experienced stable or even improving conditions last year may have nonetheless reigned in taxable purchases as they either felt uncertain about the future or uninspired to spend while empathizing with the struggles of others. Second, the city's fiscal performance may in fact have as much to do with the state's economic performance as with the city's economic performance. Previous studies have established the city's considerable pull factor in attracting retail consumers from outside the immediate region. It may be that economic weakness in the state broadly kept consumers at home and discouraged large ticket destination shopping in Oklahoma City. Regardless, fiscal weakness is expected to continue through the end of the current fiscal year, ultimately showing a year-over-year contraction.

As an exercise in fiscal forecasting, consider the following scenario. Suppose you knew the true monthly sales tax collections and private employment through June 2015 (the final month of FY 2015). Additionally, suppose you knew the true values of average weekly earnings and mining employment through January 2016 (the most recent month for which the city has received a sales tax check). Given this information set, the following forecast of sales tax collections for the July 2015 to January 2017 window is constructed.

Figure 20



The model is remarkably effective over this seven-month forecast horizon with the accuracy of the forecast further emphasized in the monthly detail provided in the table below.

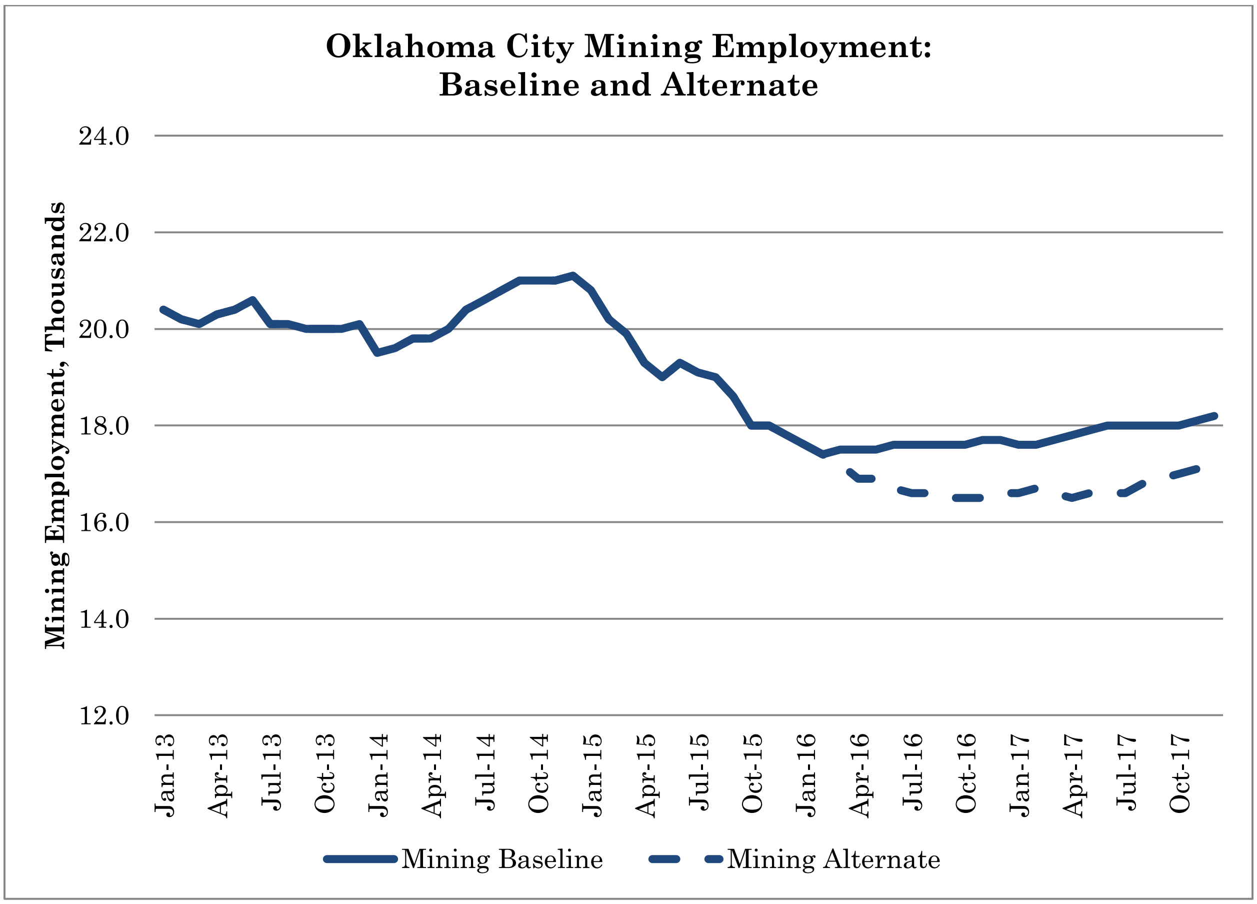
Restricted Sample Forecast: July 2015 - January 2016			
Month	Actual	Forecast	APE
Jul-16	$ 34,918,135.15	***$ 34,935,460.53***	0.05%
Aug-16	$ 36,691,396.40	***$ 36,774,261.61***	0.23%
Sep-16	$ 36,282,284.27	***$ 35,974,151.72***	0.85%
Oct-16	*$ 35,799,978.21*	***$ 36,139,120.03***	0.95%
Nov-16	*$ 34,257,069.77*	***$ 35,224,253.48***	2.82%
Dec-16	*$ 35,234,081.08*	***$ 34,137,038.71***	3.11%
Jan-17	*$ 35,762,718.50*	***$ 35,729,802.32***	0.09%
		MAPE	*1.16%*
7-Month Sum	$ 248,945,663.38	$ 248,914,088.40	0.01%

The mean absolute percent error of the forecast is 1.16% and is heavily influenced by the forecasted collections in November (the forecast overestimates the actual collections) and December (the forecast underestimates the actual collection). As the forecast errors of November and December largely offset each other, simply adding the collections over the seven-month period provides a forecast with an aggregate absolute percent error of only 0.1%.

To construct the baseline forecast for fiscal year 2017, this same model is estimated through December 2017. The full sample is restored so that actual sales tax collections are known through January 2016 and two months of private employment forecasts are added to bring that series complete through January 2016 as well. Finally, the economic outlook presented above provides the forecasts of mining employment and average weekly earnings through December 2017. Each of these exogenously generated forecasts is presented below with a formal presentation of the fiscal year 2017 outlook following.

Baseline expectations are that the city's oil and gas industry will shed an additional 500 to 600 jobs through the first half of 2016 before stabilizing at this new level for the remainder of the year, then growing modestly from this new low in 2017. An alternative forecast has been prepared and depicted below in which the city's oil and gas industry sheds an additional 1,500 jobs before establishing a low towards the end of 2016 and then growing modestly in 2017.

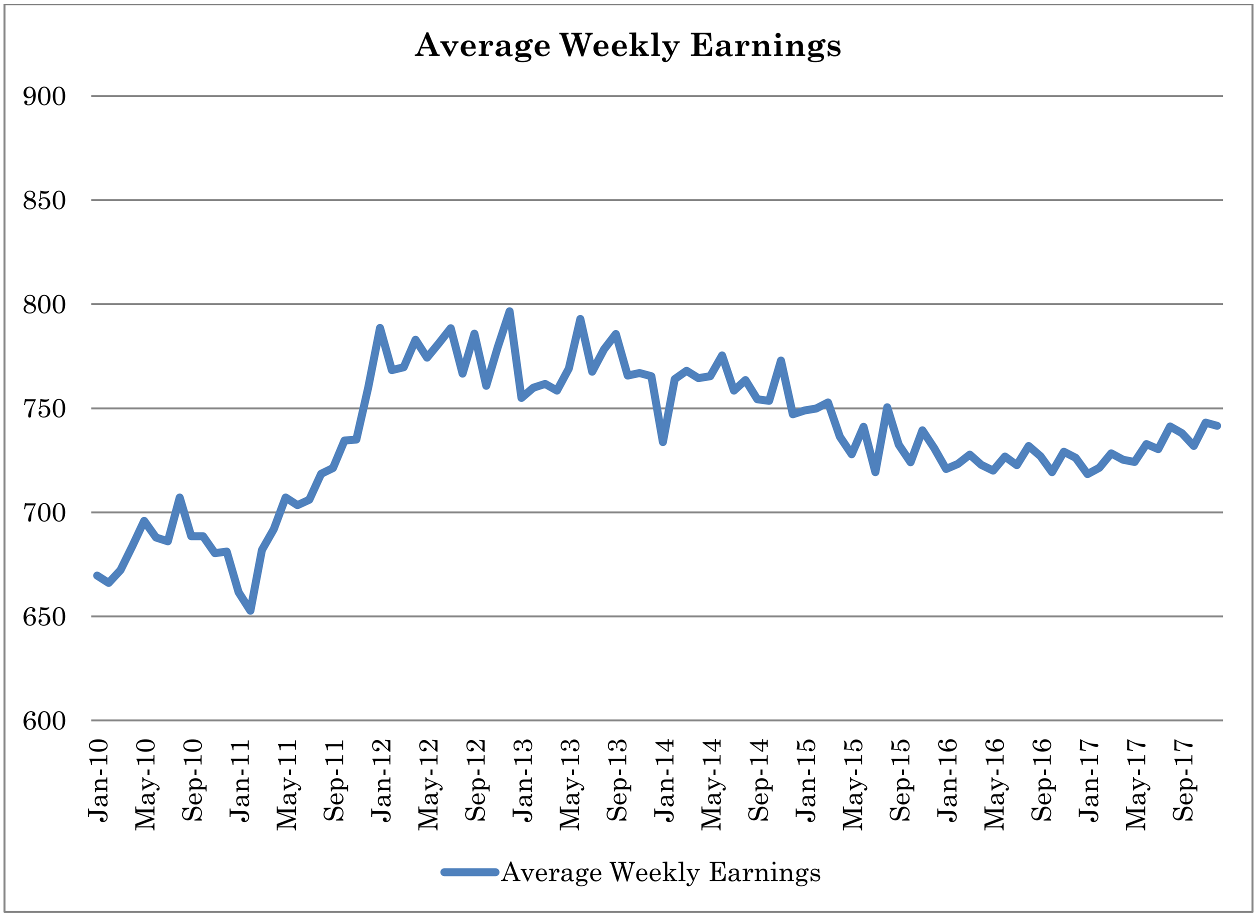
Figure 21



The baseline reflects expectations embedded in the current data of a continued struggle in the industry while the alternate scenario is more likely if there is an adverse economic shock not yet in the system – such as the loss of a local company or move into a national recession.

The baseline expectation for average weekly earnings is for the series to find a base this spring as the oil and gas contraction and shifting occupational mix works through the series.

Figure 22



It is worth acknowledging that while both forecasts are modest in their expectations, both may in fact be overly optimistic if there is an economic shock that is not yet embedded in the data.

Having established the pieces of the model – historic sales tax collections, private employment, and forecasts of mining employment and private sector average weekly wages, the following fiscal outlook is constructed.

Oklahoma City Fiscal Outlook				
	Baseline		Alternative	
Monthly Detail	Collections	Growth	Collections	Growth
Feb-16	$ 37,030,753.69	-5.7%	$ 37,030,753.69	-5.7%
Mar-16	$ 32,473,316.88	-1.9%	$ 32,413,886.57	-2.1%
Apr-16	$ 33,272,353.56	2.3%	$ 33,131,333.83	1.9%
May-16	$ 34,998,652.02	-3.1%	$ 34,809,764.55	-3.6%
Jun-16	$ 34,256,616.31	-1.2%	$ 33,952,031.73	-2.1%
Jul-16	$ 35,051,598.60	0.4%	$ 34,667,984.56	-0.7%
Aug-16	$ 35,990,916.06	-1.9%	$ 35,556,734.70	-3.1%
Sep-16	$ 36,017,480.76	-0.7%	$ 35,500,786.66	-2.2%
Oct-16	$ 36,518,952.62	2.0%	$ 35,969,080.37	0.5%
Nov-16	$ 35,296,194.74	3.0%	$ 34,705,107.66	1.3%
Dec-16	$ 34,898,935.80	-1.0%	$ 34,288,906.22	-2.7%
Jan-17	$ 36,595,085.30	2.3%	$ 36,004,066.95	0.7%
Feb-17	$ 37,658,482.29	1.7%	$ 37,092,471.83	0.2%
Mar-17	$ 33,396,207.35	2.8%	$ 32,809,867.78	1.2%
Apr-17	$ 34,160,403.35	2.7%	$ 33,549,495.71	1.3%
May-17	$ 35,827,066.71	2.4%	$ 35,202,596.72	1.1%
Jun-17	$ 35,319,268.64	3.1%	$ 34,653,560.56	2.1%
Fiscal Year Summary				
FY 2015		2.88%		2.88%
FY 2016		-1.61%		-1.77%
FY 2017		1.37%		-0.07%

Baseline expectations are for the current fiscal year to end in year-over-year contraction between -1.61% and -1.77%. In the baseline scenario, the U.S. avoids recession and the current adverse economic cycle runs through much of the 2016 calendar year. Conditions stabilize in the fall of 2016 and collections grow modestly into 2017 posting fiscal year 2017 growth of 1.37%. In the alternative scenario, weakness persists longer and the recovery is more muted, posting a flat fiscal year 2017 (-0.07%).

Oklahoma's economic future – and by extension , Oklahoma City's fiscal future – will be heavily influenced by the future path in oil markets. Currently markets are betting that supply pressures will not abate in 2016 and instead will be joined by waning demand as economic conditions weaken, driving prices even lower. If this perspective proves true, conditions will get much worse before they get better. It remains true, however, that current oil prices don't work for domestic producers and neither do they work for the budgets of oil dependent governments, suggesting that at some point prices must move higher. If the U.S. avoids recession and global conditions surprise to the upside (belief in the China growth miracle is re-established, Western Europe and Japan return to growth, etc.), this should provide some upside support to oil prices in the year ahead. Unfortunately that leaves Oklahoma City exactly where it was one year ago, waiting for additional information to reveal the duration and extent of the current economic challenge.

FIVE-YEAR FORECAST

FY 2017-2021

Appendix A: U.S. Outlook Table

U.S. Economic Outlook Summary											
Key U.S. Economic Variables / Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Gross Domestic Product: Annual Growth by Major Component											
Real GDP	1.9	-2.8	-0.2	2.7	1.7	1.3	2.5	2.5	2.1	2.7	2.4
Personal consumption expenditures	1.4	-2.0	-0.2	3.1	1.5	1.3	2.3	3.2	2.9	3.1	2.8
Fixed investment	-1.4	-12.5	-11.9	5.5	8.4	7.0	4.1	5.5	3.6	4.8	5.4
Inventory investment ($ Billions, 2005)	35.5	-33.7	-147.6	58.2	37.6	54.7	61.4	68.0	79.9	42.6	47.4
Gov't consumption & gross invest.	1.8	3.3	2.3	-1.1	-3.0	-2.2	-2.9	0.4	1.3	1.3	0.6
Employment and Industrial Activity											
Private Housing Starts (SA, Thousands of Units)	1342	900	554	586	612	784	928	1001	1116	1297	1525
Light Vehicle Sales (Millions of Units)	16.1	13.2	10.4	11.6	12.7	14.4	15.5	16.4	17.3	17.3	16.7
Industrial Production (SA Percent Change)	2.5	-8.9	-5.4	5.9	2.8	2.1	2.3	4.5	-0.3	2.4	2.2
Manufacturing Capacity Utilization Rates	78.8	74.8	65.7	70.9	73.7	74.5	74.0	75.3	75.9	75.9	76.1
NF Payroll Employment (Monthly Avg., Millions)	137.9	137.2	131.2	130.3	131.8	134.1	136.4	139.0	141.9	144.4	147.1
Unemployment Rate (Monthly Average)	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.7	4.5
Prices, Productivity, & Costs											
Consumer Price Index (All Items)	4.0	1.6	1.5	1.2	3.3	1.9	1.2	1.2	0.4	2.0	2.1
Core Consumer Price Index (Ex. Food & Energy)	2.3	2.0	1.8	0.6	2.2	1.9	1.7	1.7	1.9	1.9	2.1
Personal Consumption Exp. Price Index (Ex. Food & Energy)	2.2	1.6	1.4	1.0	1.9	1.8	1.5	1.4	1.4	1.7	1.8
Compensation Per Hour (Annual Growth)	3.9	3.0	1.2	1.4	0.6	5.6	-0.1	2.8	2.3	2.8	2.9
Price of WTI Crude (Monthly Average $/barrel)	72.36	99.57	61.69	79.43	95.08	94.20	97.94	93.26	49.78	49.77	52.84
Price of Brent Crude (Monthly Average $/barrel)	72.46	96.85	61.49	79.51	111.26	111.65	108.64	99.02	53.68	52.35	56.51
Income, Interest Rates, and the Deficit											
Federal funds rate	5.02	1.93	0.16	0.17	0.10	0.14	0.11	0.09	0.13	0.73	1.75
10-year Treasury note yield	4.63	3.67	3.26	3.21	2.79	1.80	2.35	2.54	2.15	2.89	3.63
Disposable Personal Income ($ Billions, 2009)	1.2	1.1	-0.7	2.6	1.7	5.1	-2.9	3.6	3.1	2.5	2.4
U.S. Personal Savings Rate	3.0	4.9	6.1	5.6	6.1	7.6	4.8	4.8	4.9	4.7	4.1
Unified Federal Surplus, Fiscal Year	-161.5	-454.8	-1415.7	-1294.2	-1296.8	-1089.2	-680.2	-483.4	-438.9	-554.6	-516.8

Source: Steven C. Agee Economic Research and Policy Institute; Macroadvisers MAUS 2015 Model

Appendix B: Oklahoma Outlook Table

Oklahoma Employment Outlook										
Variable/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nonfarm	1618.4	1567.5	1556.0	1577.7	1614.0	1635.2	1653.7	1664.0	1673.1	1690.0
Annual Growth	1.5%	-3.1%	-0.7%	1.4%	2.3%	1.3%	1.1%	0.6%	0.5%	1.0%
Private	1281.2	1219.2	1207.5	1233.8	1266.9	1286.7	1305.7	1315.1	1320.5	1332.8
Annual Growth	1.6%	-4.8%	-1.0%	2.2%	2.7%	1.6%	1.5%	0.7%	0.4%	0.9%
Mining	52.0	43.4	43.8	51.5	58.1	59.7	61.3	54.7	48.4	49.1
Annual Growth	11.4%	-16.4%	0.7%	17.8%	12.8%	2.7%	2.8%	-10.9%	-11.4%	1.4%
Construction	75.6	68.9	67.0	68.3	70.4	74.7	75.5	79.2	82.3	86.2
Annual Growth	5.9%	-8.8%	-2.7%	1.9%	3.1%	6.1%	1.0%	5.0%	3.8%	4.8%
Manufacturing	149.8	129.3	123.3	129.8	135.6	136.7	138.7	133.7	126.9	128.2
Annual Growth	-1.0%	-13.7%	-4.6%	5.3%	4.5%	0.8%	1.4%	-3.6%	-5.1%	1.0%
TTU	289.3	281.3	277.3	282.7	290.4	295.0	300.8	305.0	305.5	309.1
Annual Growth	0.6%	-2.8%	-1.4%	1.9%	2.7%	1.6%	1.9%	1.4%	0.2%	1.2%
Wholesale	59.3	56.2	55.6	57.9	60.3	61.8	63.4	63.9	63.9	65.3
Annual Growth	-0.1%	-5.2%	-1.0%	4.0%	4.3%	2.4%	2.6%	0.8%	0.1%	2.1%
Retail	173.0	169.9	168.6	170.5	173.2	175.0	178.3	182.8	183.6	185.0
Annual Growth	1.0%	-1.8%	-0.7%	1.1%	1.5%	1.1%	1.9%	2.5%	0.4%	0.8%
Transport	57.1	55.3	53.0	54.3	57.0	58.2	59.1	58.3	58.0	58.8
Annual Growth	0.3%	-3.2%	-4.1%	2.4%	4.9%	2.2%	1.5%	-1.3%	-0.6%	1.4%
Information	28.7	26.8	24.3	23.0	22.5	21.9	21.7	21.7	21.4	21.1
Annual Growth	-0.4%	-6.6%	-9.5%	-5.0%	-2.5%	-2.5%	-1.1%	0.3%	-1.5%	-1.5%
Finance	80.8	79.5	78.1	77.6	78.1	78.9	79.5	80.4	81.0	81.2
Annual Growth	0.9%	-1.6%	-1.8%	-0.7%	0.7%	1.0%	0.8%	1.1%	0.8%	0.3%

Variable/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prof Bus	185.7	169.8	172.4	176.1	179.8	181.4	185.8	190.2	190.7	192.8
Annual Growth	0.7%	-8.6%	1.5%	2.1%	2.1%	0.9%	2.5%	2.3%	0.3%	1.1%
Scientific & Technical	64.9	62.9	63.5	64.3	65.9	66.8	67.3	68.7	69.4	70.2
Annual Growth	2.4%	-3.0%	0.9%	1.3%	2.4%	1.4%	0.7%	2.1%	1.0%	1.1%
Management	16.7	16.4	16.3	17.0	18.0	18.4	18.7	19.2	19.5	19.9
Annual Growth	2.8%	-1.9%	-0.5%	4.3%	5.8%	2.0%	1.9%	2.4%	1.6%	2.3%
Admin	104.1	90.5	92.6	94.7	95.9	96.2	99.8	102.3	101.8	102.7
Annual Growth	-0.6%	-13.1%	2.3%	2.3%	1.2%	0.3%	3.8%	2.5%	-0.5%	0.9%
Ed & Health	214.8	218.6	221.7	223.1	226.2	227.7	228.1	231.1	233.2	235.4
Annual Growth	2.2%	1.8%	1.4%	0.6%	1.4%	0.6%	0.2%	1.3%	0.9%	1.0%
Education	17.4	18.1	18.4	19.0	19.2	19.4	19.9	20.5	20.9	21.3
Annual Growth	2.5%	4.1%	1.5%	3.3%	1.0%	1.2%	2.6%	3.0%	1.6%	1.9%
Health	197.3	200.4	203.3	204.1	207.0	208.3	208.2	210.6	212.3	214.2
Annual Growth	2.2%	1.6%	1.4%	0.4%	1.4%	0.6%	0.0%	1.2%	0.8%	0.9%
Leisure	141.0	140.0	139.0	142.9	147.2	151.6	155.0	159.3	161.8	164.0
Annual Growth	2.3%	-0.7%	-0.7%	2.8%	3.0%	3.0%	2.3%	2.7%	1.6%	1.4%
Arts	15.6	14.4	14.3	14.1	14.3	14.6	14.5	14.4	14.2	14.4
Annual Growth	7.1%	-8.0%	-0.7%	-1.3%	1.2%	2.3%	-0.7%	-1.0%	-1.0%	1.0%
Food and Accom.	125.4	125.6	124.7	128.8	132.9	137.0	140.5	144.9	147.6	149.7
Annual Growth	1.8%	0.2%	-0.7%	3.3%	3.2%	3.1%	2.6%	3.1%	1.8%	1.4%
Other	63.5	61.6	60.6	58.8	58.6	59.1	59.3	59.7	58.9	58.4
Annual Growth	0.6%	-3.0%	-1.7%	-2.9%	-0.4%	0.9%	0.3%	0.7%	-1.3%	-0.8%
Government	337.3	348.3	348.5	343.9	347.1	348.6	348.0	348.9	351.3	353.4
Annual Growth	1.0%	3.3%	0.1%	-1.3%	0.9%	0.4%	-0.2%	0.3%	0.7%	0.6%

Variable/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Federal	45.2	46.6	50.4	49.1	48.4	47.1	46.3	46.6	47.0	46.8
Annual Growth	-0.2%	3.0%	8.3%	-2.6%	-1.6%	-2.5%	-1.7%	0.5%	0.9%	-0.3%
State	84.1	85.1	83.8	84.8	86.4	86.3	85.8	85.6	86.5	87.0
Annual Growth	0.4%	1.2%	-1.5%	1.2%	1.9%	-0.1%	-0.6%	-0.3%	1.1%	0.5%
Local	207.9	216.7	214.3	209.9	212.4	215.1	215.9	216.8	217.8	219.6
Annual Growth	1.5%	4.2%	-1.1%	-2.0%	1.2%	1.3%	0.3%	0.4%	0.5%	0.8%
Nonfarm OKC	584.3	568.1	566.9	580.1	594.2	608.0	617.7	630.1	636.6	644.9
Annual Growth	1.3%	-2.8%	-0.2%	2.3%	2.4%	2.3%	1.6%	2.0%	1.0%	1.3%
Private OKC	465.9	447.4	444.8	458.4	471.7	483.4	492.9	503.4	508.8	516.2
Annual Growth	1.4%	-4.0%	-0.6%	3.0%	2.9%	2.5%	2.0%	2.1%	1.1%	1.4%
Weekly Earn	618.0	633.8	681.9	720.6	741.0	743.0	757.1	756.9	768.3	777.3
Annual Growth	1.9%	2.6%	7.6%	5.7%	2.8%	0.3%	1.9%	0.0%	1.5%	1.2%
Unemployed	65,384	112,409	120,146	104,598	94,774	96,429	80,202	78,405	83,562	84,173
Annual Growth	-7.6%	71.9%	6.9%	-12.9%	-9.4%	1.7%	-16.8%	-2.2%	6.6%	0.7%
Employed	1,681,081	1,652,023	1,648,138	1,669,280	1,705,122	1,706,785	1,703,832	1,764,284	1,775,827	1,784,524
Annual Growth	1.5%	-1.7%	-0.2%	1.3%	2.1%	0.1%	-0.2%	3.5%	0.7%	0.5%
Labor Force	1,746,465	1,764,432	1,768,284	1,773,879	1,799,897	1,803,214	1,784,034	1,842,690	1,859,390	1,868,697
Annual Growth	1.2%	1.0%	0.2%	0.3%	1.5%	0.2%	-1.1%	3.3%	0.9%	0.5%
Un Rate	3.7%	6.4%	6.8%	5.9%	5.3%	5.3%	4.5%	4.3%	4.5%	4.5%
Annual Growth	-8.8%	70.2%	6.7%	-13.2%	-10.7%	1.5%	-15.9%	-5.4%	5.6%	0.2%

Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma GDP, Personal Income, and Population							
Variable/Year	2011	2012	2013	2014	2015	2016	2017
Real GDP (Mil 2009 $)	149,860	155,218	157,812	162,427	165,875	165,633	167,830
Annual Growth	2.8%	3.6%	1.7%	2.9%	2.1%	-0.1%	1.3%
Personal Income (Thousands $)	147,813,000	158,596,000	161,686,000	169,228,000	173,371,000	175,236,000	179,937,000
Annual Growth	9.4%	7.3%	1.9%	4.7%	2.4%	1.1%	2.7%
Population	3,787,451	3,818,401	3,852,280	3,878,517	3,902,958	3,926,765	3,948,367
Annual Growth	0.8%	0.8%	0.9%	0.7%	0.6%	0.6%	0.6%
Per Capita Personal Inc.	39,026	41,533	41,971	43,631	44,420	44,626	45,572
Annual Growth	8.6%	6.4%	1.1%	4.0%	1.8%	0.5%	2.1%

Source: Steven C. Agee Economic Research and Policy Institute

Appendix C: Oklahoma City Outlook Table

Oklahoma City Metro Area Employment Outlook										
Variable / Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nonfarm	584.3	568.1	566.9	580.1	594.2	608.0	617.7	630.1	636.6	644.9
Annual Growth	1.3%	-2.8%	-0.2%	2.3%	2.4%	2.3%	1.6%	2.0%	1.0%	1.3%
Private	465.9	447.4	444.8	458.4	471.7	483.4	492.9	503.4	508.8	516.2
Annual Growth	1.4%	-4.0%	-0.6%	3.0%	2.9%	2.5%	2.0%	2.1%	1.1%	1.4%
Mining	16.0	13.5	14.3	17.0	19.6	20.2	20.4	19.1	17.6	17.9
Annual Growth	11.0%	-15.5%	5.4%	19.0%	15.3%	3.1%	0.9%	-6.4%	-7.9%	1.9%
Construction	27.7	25.8	25.2	25.9	26.5	27.1	28.2	29.3	30.0	30.3
Annual Growth	4.1%	-6.8%	-2.3%	2.6%	2.4%	2.4%	4.0%	3.9%	2.2%	1.0%
Manufacturing	37.0	32.5	31.0	32.9	35.1	36.5	37.4	38.2	38.4	39.5
Annual Growth	-0.1%	-12.1%	-4.6%	6.1%	6.6%	4.0%	2.4%	2.4%	0.5%	2.7%
TTU	100.7	97.5	97.2	100.0	102.9	107.0	109.2	111.7	110.3	112.0
Annual Growth	-0.5%	-3.2%	-0.3%	2.9%	2.9%	4.0%	2.0%	2.3%	-1.3%	1.5%
Wholesale	23.0	21.9	22.1	23.4	24.9	26.5	27.0	27.5	27.2	28.0
Annual Growth	0.1%	-4.5%	0.9%	6.0%	6.4%	6.2%	1.9%	1.9%	-1.0%	2.9%
Retail	62.3	60.2	60.1	61.2	62.3	64.2	65.8	67.7	67.0	67.7
Annual Growth	0.5%	-3.4%	-0.2%	1.9%	1.9%	3.0%	2.4%	3.0%	-1.2%	1.1%
Transport	15.5	15.4	15.0	15.4	15.6	16.3	16.4	16.5	16.1	16.2
Annual Growth	-5.0%	-0.2%	-2.6%	2.1%	1.9%	4.4%	0.5%	0.2%	-2.1%	0.6%
Information	12.2	11.1	9.6	9.0	8.6	8.2	8.3	8.4	8.2	8.1
Annual Growth	-1.3%	-9.0%	-13.6%	-5.8%	-4.4%	-4.5%	0.4%	2.0%	-2.3%	-1.6%
Financial	31.8	31.3	31.0	30.8	31.8	32.4	33.1	33.4	33.8	34.1
Annual Growth	1.0%	-1.7%	-1.0%	-0.6%	3.1%	1.9%	2.3%	0.9%	1.1%	1.0%

Variable / Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PBS	77.4	71.9	73.2	75.8	76.8	77.6	79.1	83.1	84.8	86.7
Annual Growth	-0.4%	-7.1%	1.8%	3.6%	1.3%	1.1%	1.9%	4.9%	2.1%	2.3%
Scientific	28.2	27.6	28.3	29.2	30.0	29.9	30.1	31.1	31.1	31.8
Annual Growth	2.9%	-2.1%	2.7%	3.0%	2.8%	-0.1%	0.4%	3.6%	0.0%	2.0%
Management	8.4	7.5	7.2	7.8	8.8	9.0	9.5	9.7	9.9	10.2
Annual Growth	-3.3%	-11.2%	-3.1%	7.4%	12.9%	2.5%	5.5%	1.8%	2.5%	3.3%
Admin	40.8	36.8	37.6	38.9	38.0	38.7	39.6	42.3	43.7	44.7
Annual Growth	-1.9%	-9.7%	2.1%	3.4%	-2.1%	1.8%	2.3%	6.7%	3.5%	2.3%
Ed & Health	82.2	82.9	83.2	84.4	86.4	88.0	89.0	89.3	91.3	92.9
Annual Growth	3.6%	0.9%	0.4%	1.4%	2.4%	1.7%	1.1%	0.4%	2.3%	1.7%
Health	74.6	74.8	74.8	75.5	77.4	78.7	79.3	80.3	81.9	83.2
Annual Growth	3.4%	0.3%	0.0%	0.9%	2.5%	1.7%	0.8%	1.3%	2.0%	1.5%
Leisure	57.1	57.6	57.6	60.0	61.7	64.2	65.5	68.2	70.2	71.1
Annual Growth	2.0%	0.9%	0.1%	4.2%	2.9%	4.0%	2.1%	4.1%	2.9%	1.3%
Other	23.9	23.3	22.7	22.7	22.4	22.3	22.8	22.7	22.6	22.6
Annual Growth	2.8%	-2.2%	-2.7%	0.0%	-1.4%	-0.6%	2.6%	-0.7%	-0.4%	0.2%
Government	118.5	120.8	122.0	121.7	122.5	124.6	124.8	126.7	127.8	128.7
Annual Growth	0.7%	1.9%	1.0%	-0.2%	0.6%	1.7%	0.2%	1.5%	0.9%	0.7%
Federal	25.7	26.2	28.1	28.4	28.2	27.6	26.9	27.1	27.5	28.1
Annual Growth	-2.2%	1.8%	7.4%	0.9%	-0.6%	-2.2%	-2.3%	0.5%	1.7%	2.1%
State	41.6	42.0	41.7	42.1	42.4	43.5	44.4	45.2	45.1	45.4
Annual Growth	0.0%	1.0%	-0.8%	0.8%	0.8%	2.6%	2.0%	2.0%	-0.3%	0.5%
Local	51.2	52.6	52.2	51.3	51.9	53.6	53.5	54.4	55.2	55.3
Annual Growth	2.8%	2.7%	-0.7%	-1.7%	1.2%	3.2%	-0.1%	1.7%	1.4%	0.2%

Variable / Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unemployed	21,212	33,790	36,553	31,833	29,372	30,516	25,818	24,683	24,574	24,058
Annual Growth	-9.4%	59.3%	8.2%	-12.9%	-7.7%	3.9%	-15.4%	-4.4%	-0.4%	-2.1%
Employed	543,630	535,992	586,948	598,986	614,417	619,829	619,731	643,741	653,769	662,421
Annual Growth	1.2%	-1.4%	9.5%	2.1%	2.6%	0.9%	0.0%	3.9%	1.6%	1.3%
Labor Force	564,843	569,783	623,502	630,819	643,790	650,346	645,549	668,425	678,344	686,480
Annual Growth	0.8%	0.9%	9.4%	1.2%	2.1%	1.0%	-0.7%	3.5%	1.5%	1.2%
Un Rate	3.8%	5.9%	5.9%	5.0%	4.6%	4.7%	4.0%	3.7%	3.6%	3.5%
Annual Growth	-10.1%	58.0%	-1.1%	-13.9%	-9.6%	2.8%	-14.7%	-7.7%	-1.9%	-3.3%
Avg. Weekly Earn	650.7	636.5	683.9	706.2	778.6	768.9	760.1	737.8	724.8	731.4
Annual Growth	-2.3%	-2.2%	7.5%	3.2%	10.3%	-1.2%	-1.1%	-2.9%	-1.8%	0.9%

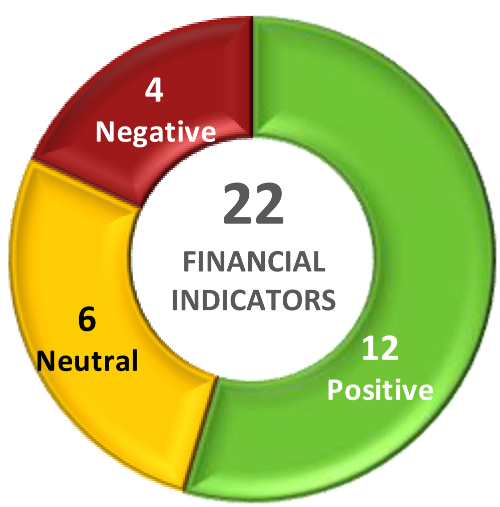
Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma City GDP, Income, and Population

Variable/Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP	56,815	56,128	56,993	59,028	61,078	62,893	64,948	66,125	67,203	68,787
Annual Growth	2.4%	-1.2%	1.5%	3.6%	3.5%	3.0%	2.6%	2.5%	1.6%	2.4%
OKC Real GDP Per Capita	46,698	45,345	45,309	46,245	47,078	47,658	48,249	48,902	49,174	49,611
Annual Growth	0.9%	-2.9%	-0.1%	2.1%	1.8%	1.2%	1.2%	1.4%	0.6%	0.9%
Personal Income	50,171,672	46,435,001	48,703,350	53,676,596	57,501,721	59,496,011	62,394,052	63,661,723	64,183,325	65,687,437
Annual Growth	10.4%	-7.4%	4.9%	10.2%	7.1%	3.5%	4.9%	2.0%	0.8%	2.3%
Population	1,216,645	1,237,780	1,257,888	1,276,858	1,297,886	1,320,585	1,336,767	1,352,208	1,366,635	1,386,536
Annual Growth	1.4%	1.7%	1.6%	1.5%	1.6%	1.7%	1.2%	1.2%	1.1%	1.5%
Per Capita Pers Income	41,238	37,515	38,718	42,038	44,304	45,053	46,675	47,080	46,964	47,375
Annual Growth	8.9%	-9.0%	3.2%	8.6%	5.4%	1.7%	3.6%	0.9%	-0.2%	0.9%

Source: Steven C. Agee Economic Research and Policy Institute

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.



SECTION 4
FINANCIAL TREND MONITORING

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 ninth year using the FTMS.

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

WHAT IS FINANCIAL CONDITION?

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

- **Cash Solvency** – a government's ability to generate enough cash in thirty or sixty days to pay its bills.
- **Budgetary Solvency** – a government's ability to generate enough revenues over its normal budget period to meet expenditure requirements and not incur deficits.
- **Long Run Solvency** – a government's ability in the long run to pay all the costs of doing business including expenditures that normally appear in each annual budget as well as those that will be paid only in the years in which they are due.
- **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.[2]

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 overall picture of how Oklahoma City is performing in each of these various areas of financial condition defined above. Knowing the overall financial condition and what factors are changing, whether improving or declining, is of benefit as we develop strategies to address our current situation and plan for the future.

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

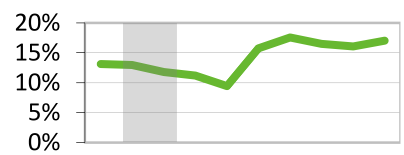
FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.[3] Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government early on to potential problems and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation we used 22 measures. The measures omitted were either not applicable to Oklahoma City or the data is not currently available for the indicator. The group of indicators that were 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 other 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 given above, it is important to note that the indicators by themselves will not explain specifically why a problem is occurring. Instead, decisions for further analysis can be based on the direction the indicator is moving. In addition, these indicators provide a snapshot of where the City has been. Some of these indicators can be predictive if the City continues to follow the trend, but the data included in the report indicates what has happened. It is up to City management to interpret why something has changed and determine 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 (2011-2015) were examined. There were some instances when 2015 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. The recession period is indicated on the charts by gray shading for the applicable time period as shown in the graphic at right.



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:

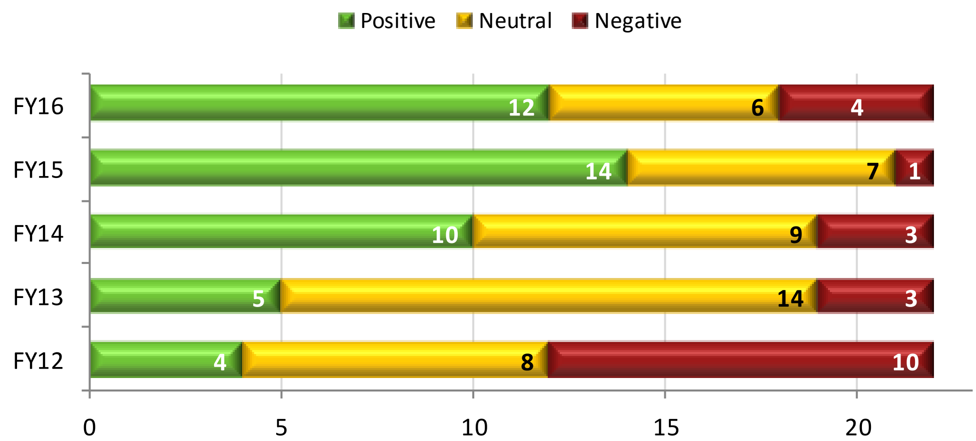
☑ **Positive**	A positive trend is favorable towards the City's financial condition and/or the indicator is meeting City policy or performance measures set by management.
☐ **Neutral**	A neutral trend implies there is no immediate concern and the indicator is not leaning negative or positive. These indicators are watched carefully for change to indicate early signs of improvement or worsening conditions.
☒ **Negative**	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 12 positive indicators, 6 neutral indicators, and 4 negative indicators; overall, a decline from last year's 14 positive, 7 neutral, and one negative. Property Value improved from last year while three indicators worsened: Average Weekly Earnings, Active Drilling Rigs, and Private Development Plans.. However, the City remains in a favorable financial position as there were no changes in the financial indicators. 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 56.

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 impact low oil and natural gas prices are having on our local economy. Management will monitor these areas and develop strategies to keep us moving in a positive direction financially.

Indicator History

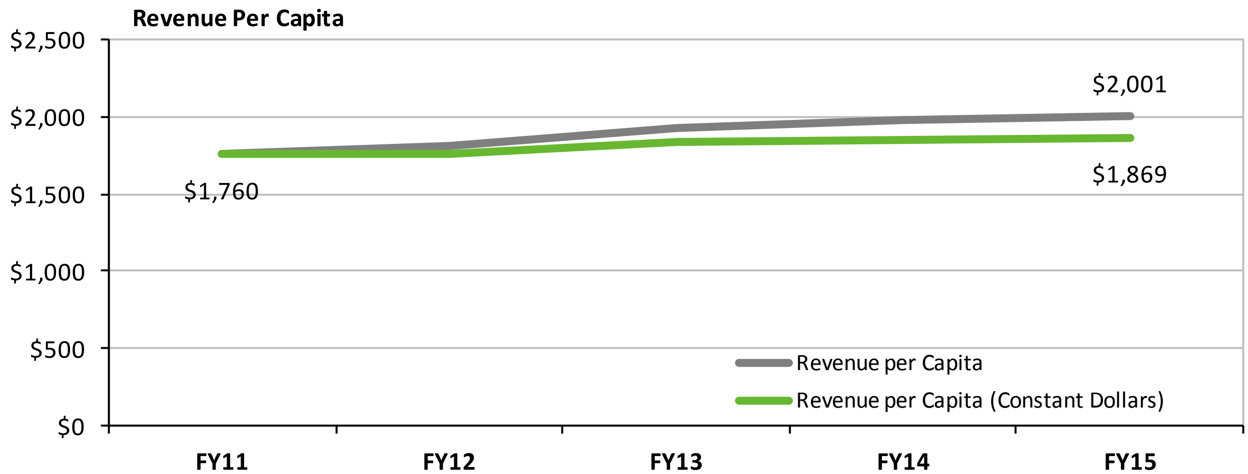


☑ = Positive ☐ = Neutral ☒ = Negative

FY12	FY13	FY14	FY15	FY16	FINANCIAL INDICATORS
☐	☐	☑	☑	☑	Revenue Per Capita
☐	☑	☑	☑	☑	Sales Tax Revenues
☐	☐	☐	☐	☐	Sales Tax as a % of General Fund
☒	☒	☐	☐	☐	Revenue Accuracy
☐	☐	☐	☒	☒	Grant Revenues
☐	☑	☑	☑	☑	Hotel/Motel Tax Revenue
☐	☐	☐	☐	☐	Fringe Benefits
☐	☐	☐	☐	☐	Employees per 1,000 Citizens
☑	☑	☑	☑	☑	Fund Balance
☑	☑	☑	☑	☑	Liquidity
☐	☐	☐	☑	☑	Enterprise Working Capital
☐	☐	☐	☐	☐	Long-Term Debt
☒	☒	☑	☑	☑	Pension Funding Ratio
					ENVIRONMENTAL INDICATORS
☑	☑	☑	☑	☑	Population
☒	☐	☑	☑	☑	Airport Activity
☐	☒	☐	☑	☑	Crime Rate
☐	☑	N/A	N/A	N/A	Per Capita Personal Income
N/A	N/A	☑	☑	☒	Average Weekly Earnings (Previously Average Weekly Wages) ***Worsened***
☐	☑	☑	☑	☑	Labor Force (Previously Employment Base)
☑	☐	☐	☐	☑	Property Value ***Improved***
☐	☑	☐	☐	☐	Office Vacancy Rate
☑	☑	☐	☑	☒	Active Drilling Rigs ***Worsened***
☐	☑	☑	☑	☒	Private Development Plans Submitted for Approval ***Worsened***

REVENUE PER CAPITA

POSITIVE TREND



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. If per capita revenues were decreasing, a local government would need 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.[4]

Why is This Important to Oklahoma City?

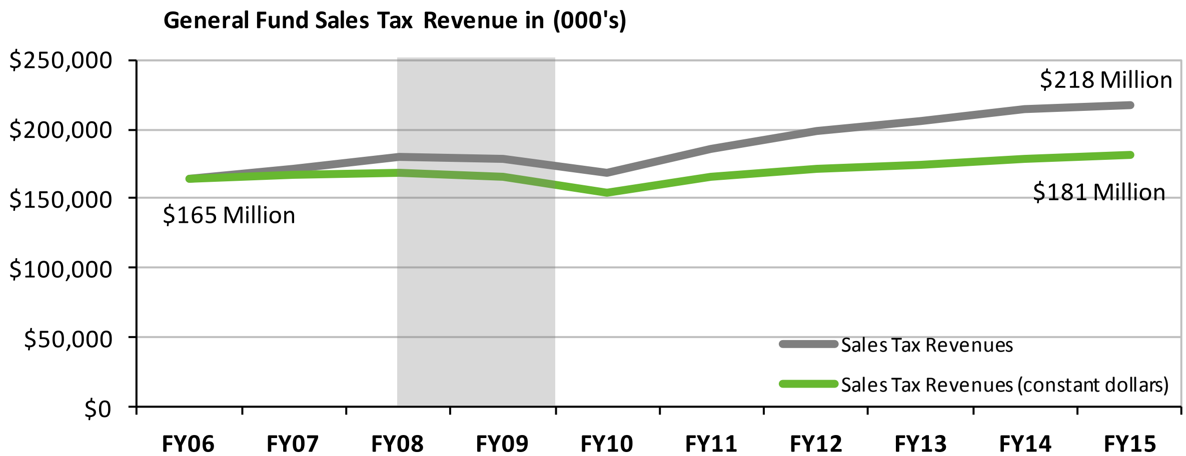
This issue is delicate since revenue per capita is a reflection of the financial impact of the City's taxes and fees on citizens, but is also necessary to provide the level and quality of services citizens desire.[5] Over the five-year period, revenue per capita increased an average of 1.2% after adjusting for inflation. Since the revenue per capital steadily grew over the time period, the indicator was rated positive. The City will continue to monitor existing revenue sources and look for new revenue possibilities in order to ensure revenue keeps up with population and inflation growth in the coming years.

Formula:

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

SALES TAX REVENUES

POSITIVE TREND



What Tax Revenues are Included in this Indicator?

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

Why is This Important to Oklahoma City?

Sales Tax accounts for 53% of all General Fund revenue on average, so a change in growth rate can impact the City's operations and services provided to citizens. Changes in Sales Tax can have a number of causes including state or local economic health, changes in population, the movement of retail operations to and from other communities, and/or Sales Tax payers moving their base of operations to other jurisdictions.[5] The chart above shows the continued rebound from the recession. Not only have sales tax collections grown after adjusting for inflation (constant dollars), unadjusted sales tax revenue has grown 32% over the last ten years and 17% over the last five years which led to a positive rating for this indicator.

Current Year Activity

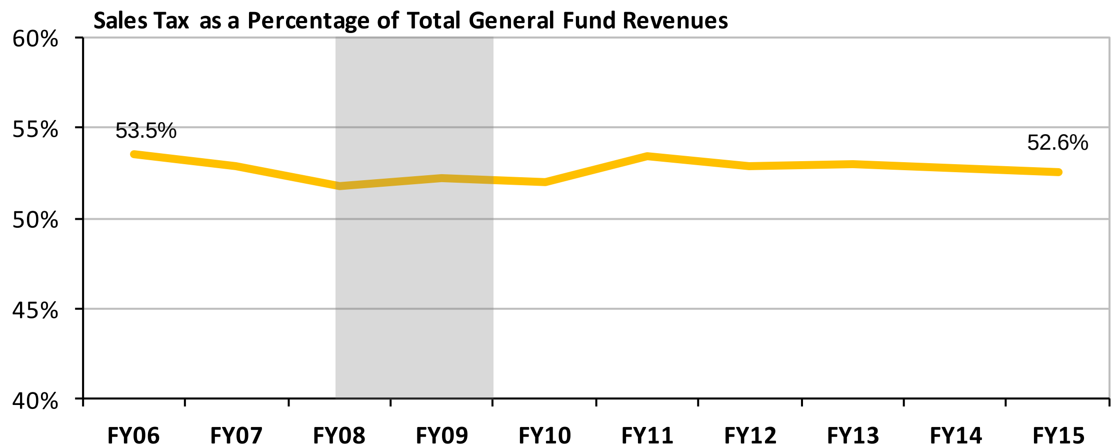
The Oklahoma City economy has slowed due in large part to the energy sector and decline in oil and natural gas prices. In the current fiscal year sales tax had declined 1.28% through January and is projected to finish the year at about 1.2% below prior year or 3% below the projected growth of 2.35%. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

Formula:

$$\frac{\text{Sales Tax}}{\text{Consumer Price Index (2006 used as base year)}}$$

SALES TAX AS PERCENTAGE OF GENERAL FUND

NEUTRAL TREND



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

Sales Tax revenue is collected at a rate of two cents per dollar for Oklahoma City's General Fund. In economic terms Sales Tax is considered to be an elastic revenue source; meaning that it changes incrementally with changes in the economy.[6] When the economy is strong, Sales Tax revenues grow, whereas when the economy is slowing Sales Tax revenues decrease. In contrast, inelastic revenue types, such as property taxes, are less responsive to changes in the economy. For example, the revenue generated from property tax, being based on assessed valuation, generally remains stable regardless of the direction the economy is moving in the near-term because it takes longer for economic activity to impact assessed values.

Why is This Important to Oklahoma City?

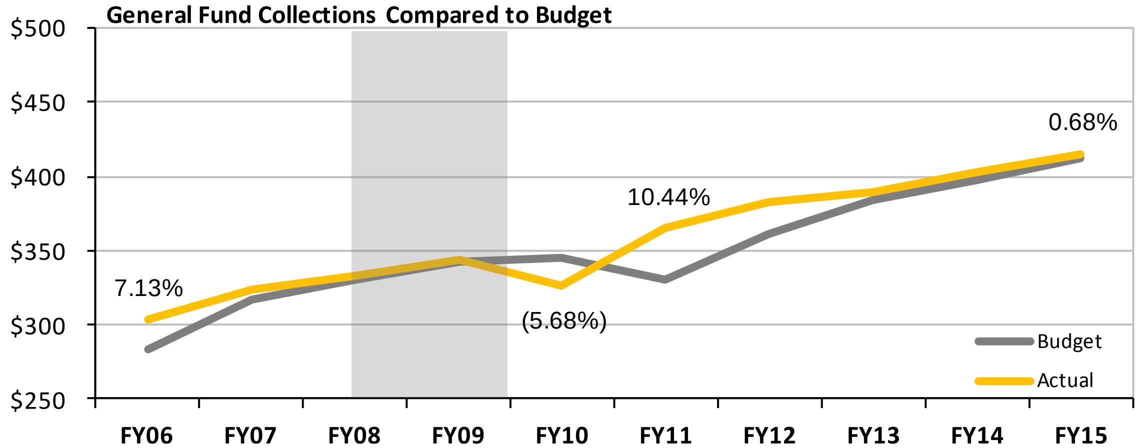
Ideally, Oklahoma City, or any municipality, needs diversity in its revenue sources. It is beneficial that Sales Tax contributes a significant part of Oklahoma City's revenue mix so that in times of economic growth and/or inflation the revenue yield can increase to keep pace with demand and higher prices. However, relying too much on Sales Tax leaves the City more vulnerable to economic downturns since other, more stable, revenue sources comprise a smaller portion of the City's total revenue. The consistent percentage of Sales Tax as a percent of total General Fund revenue indicates that the City's revenue base is less diverse; however, due to the small scale of the change from year to year this is rated as a neutral trend. Staff will continue to review fee levels and propose new revenue sources where possible to continue to move the City toward a more diversified revenue mix.

Formula:

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

REVENUE ACCURACY

NEUTRAL TREND



Determining Revenue Accuracy

This indicator examines the differences between revenue estimates and revenues actually received in the General Fund during the fiscal year. Significant continued variances in revenue from estimated amounts, whether the discrepancy is an overage or shortage, can be reason for concern. Either scenario could indicate a changing economy or inaccurate forecasting techniques. Additionally, credit rating organizations such as Standard & Poor's use this indicator to review the quality of financial management in a local government since variances between budget and actual results are considered indicative of management's financial planning capabilities.[7] The worst-case scenario for this indicator would be increasing revenue shortfalls.

Why is This Important to Oklahoma City?

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

In FY10 Oklahoma was still feeling the impact of the recession and collections came in 5.68% below projections. Conservative projections in FY11 were exceeded by 10.44% as Oklahoma City rebounded strongly from the recession. From FY13 to FY15 revenue collections were within 1% of projections. The average variance over the last five years was 3.95%, which is above the City's stated goal of having revenues within 2% of projections; therefore this indicator was rated neutral.

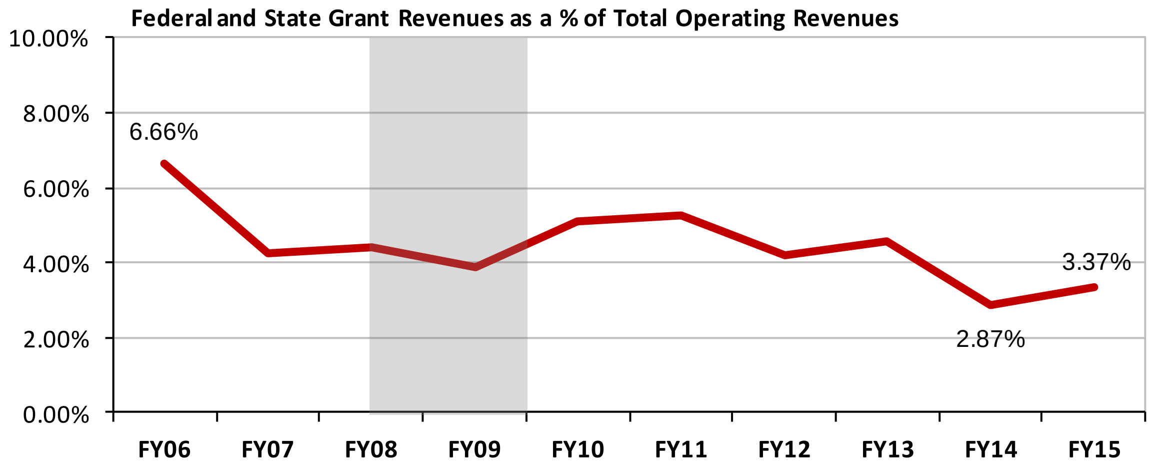
Current Year Activity

In the current fiscal year, General Fund revenue was 3.8% below projections through December, as the slowing economy has been felt across most General Fund Revenue sources.

Formula: Actual General Fund Revenue – Amended Budgeted General Fund Revenue

GRANT REVENUES

NEGATIVE TREND



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.[8] The primary concern is to understand the local government's vulnerability to reductions of such revenues and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

Why is This Important to Oklahoma City?

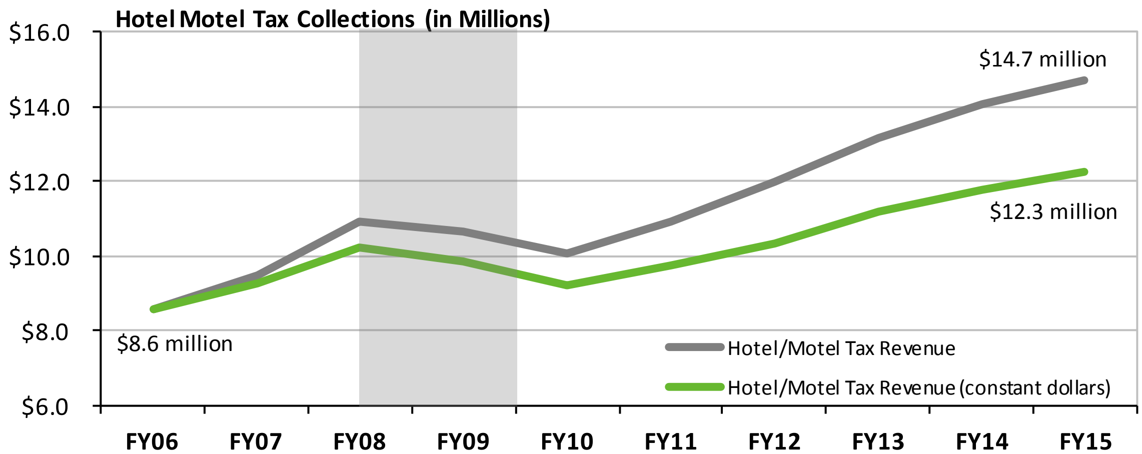
The three largest granting agencies, Department of Housing and Urban Development, Department of Transportation, and Department of Homeland Security, accounted for 91% of the $40.5 million in grant revenue for FY15. Without the grant funds, many of the social services and capital project programs funded by the grants would cease. Grant revenues, as a percentage of operating revenues, has been fairly stable in previous years remaining in the 4% to 5% range. Some of these grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. For example, FY06 had grant awards of $61.6 million, the largest since 2001, and was attributed to a special program for Neighborhood Stabilization. In FY14 Federal and state grant funding were at their lowest level since 2001 and the indicator went from neutral to negative. There was some recovery in FY15 but grant funding still only accounted for 3.4% of operating revenues. Because FY15 grant revenue remained below the 4% to 5% long term average, the indicator continued to be rated as negative.

Formula:

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

HOTEL MOTEL TAX

POSITIVE TREND



Why is Hotel Motel Tax an indicator for Financial Performance?

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

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

Why is This Important to Oklahoma City?

Hotel Motel Tax for Oklahoma City continued the growth trend which began in FY11. In terms of constant dollars, Hotel Motel Tax revenue had grown 43% over the 10-year period and in current dollars grew 4.5% in FY15. The strong recovery from the recession and continued growth led us to assign a positive rating for this indicator.

Current Year Activity

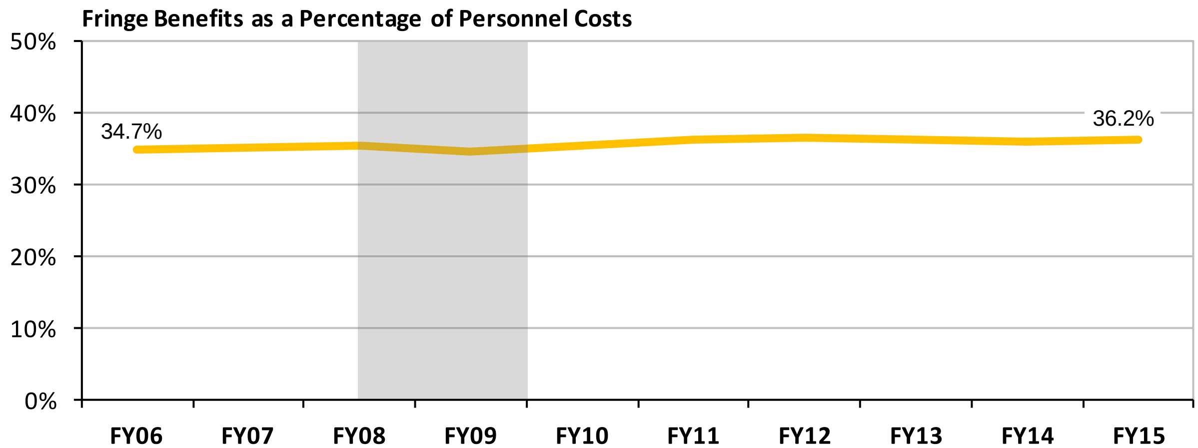
Hotel Motel Tax had grown 1.9% through December, which is impressive since sales tax and most other revenue sources have declined in the current fiscal year as a result of the slowing local economy.

Formula:

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

FRINGE BENEFITS

NEUTRAL TREND



What are Fringe Benefits?

The most common form of fringe benefits is retirement plans, health and life insurance, uniform allowance, and disability insurance. In addition, this analysis includes paid time off for vacation and sick leave. Benefits are a significant share of operating costs often exceeding 35% of employee compensation; and due to the complexity of tracking these costs, they can escalate unnoticed.

Why is This Important to Oklahoma City?

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

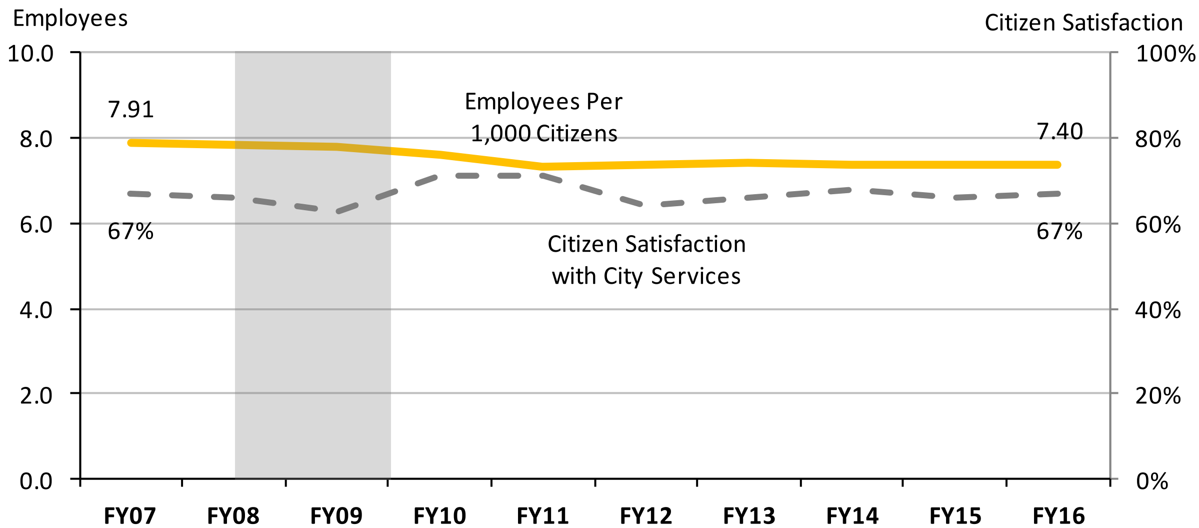
In this analysis we accounted for the value of paid time off such as sick and vacation leave and included those costs as part of fringe benefits. The analysis also includes the contributions being made for retiree health insurance as a fringe benefit. Post employment health insurance is currently made on a primarily pay-as-you-go basis. This differs from advance funding, which is the method used for pension contributions. The pay-as-you-go basis only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. The Other Post Employment Benefits Trust (OPEBT) was established in 2008 to begin to address the issue of future liability and funding levels for retiree health insurance. Since establishment of the OPEBT in 2008, the City has been making contributions in excess of pay as you go funding. At the end of FY15, OPEBT's current funding level was 7%.

Formula:

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

EMPLOYEES PER 1,000 CITIZENS

NEUTRAL TREND



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 a good way to evaluate changes in 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.[9]

Why is This Important to Oklahoma City?

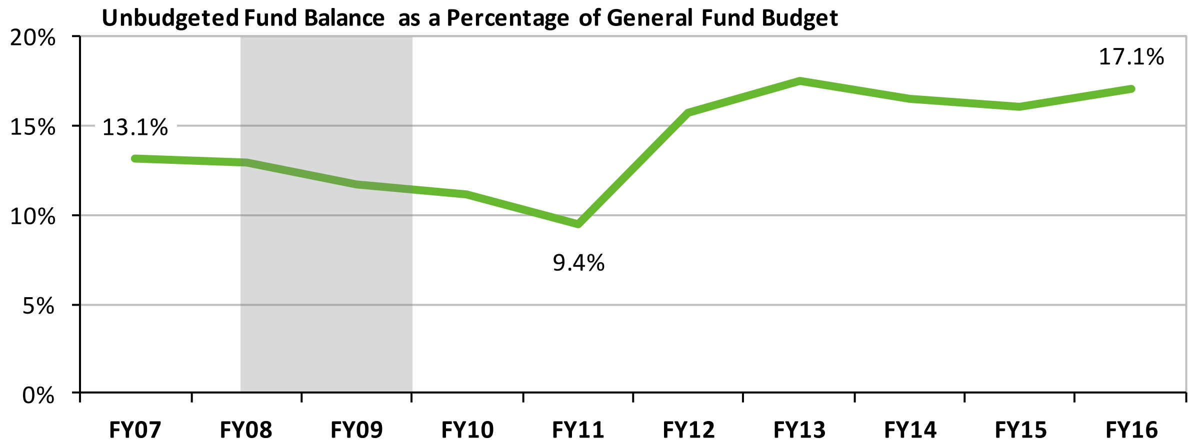
The number of employees per 1,000 citizens provides a quantitative measure of government efficiency, while citizen satisfaction provides a qualitative measure. Population grew 16% over the 10-year period and the number of employees grew 8%, resulting in a slight improvement in the ratio of employees per 1,000 citizens. However, because it remained relatively flat during the 10-year period the indicator was rated neutral. To ensure that the ratio of employees to population is sufficient to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The most recent citizen survey, completed in 2015, reported 67% of citizens were satisfied with city services which is significantly higher than the other large cities in the U.S. that average 48% satisfaction. Citizen satisfaction with city services has remained fairly steady over the ten year period, averaging 67% annually which also indicated a neutral trend.

Formula:

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

FUND BALANCE

POSITIVE TREND



What is fund balance?

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

Why is This Important to Oklahoma City?

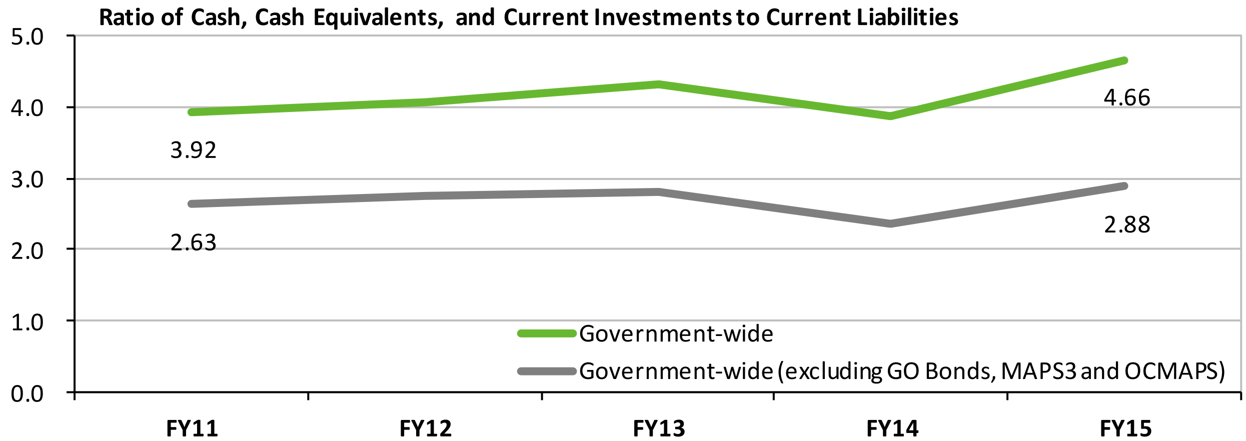
Prior to FY11, the target range for unbudgeted fund balance was 6-10% of the General Fund budget. The City began FY09 and FY10 exceeding the policy.[10] In FY10, significant revenue shortfalls caused by the downturn in the economy resulted in the use of fund balance to supplement recurring revenue in order to maintain services. Having fund balance to call on during the recession reaffirms the importance of having an adequate reserve. In FY11, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. Strong revenue growth in the last five years has resulted in beginning fund balances that exceed target. City Council elected to use excess fund balance in four of the last five years to fund street resurfacing and capital projects. Even with the use of fund balance the percent of unbudgeted fund balance has remained at the high end of the 8 to 15% range set by City policy and was rated positive.

Formula:

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

LIQUIDITY

POSITIVE TREND



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. 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 fairly steady averaging 4.16 annually.[11] In FY14 the ratio declined due to completion of planned capital projects and then increased to 4.66 in FY15. The change in FY15 was due to revenue being up in the General Fund, Debt Service Fund, Grants and various other government funds, as well as, a decrease in liabilities due to reduced Accounts Payable and the change in commercial paper from short term debt to long term debt. The ratio has remained very healthy over the last five years, as such this indicator is rated positive.

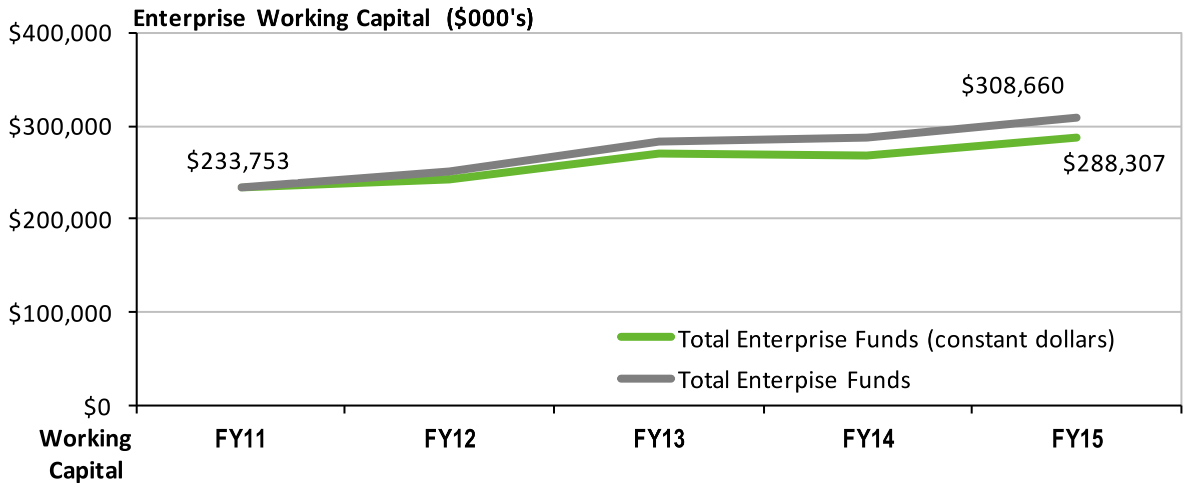
A secondary data set provides a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, instead it excludes three of the largest funds, General Obligation Bonds, MAPS 3, and OCMAPS, which are restricted for the purpose of funding capital projects. This *"practical"* liquidity rate has also trended positive during the five year period and provides insight into our cash position for operations. It finished FY15 at 2.88 indicating that operational funding is also very healthy.

Formula:

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

ENTERPRISE WORKING CAPITAL

POSITIVE TREND



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 the purpose of 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 $308 million ($288 million in constant dollars), and a liquidity ratio of 2.98, 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 constant dollars increased $54 million (23%) and the liquidity ratio remained well above the desired level of one, indicating a positive trend.

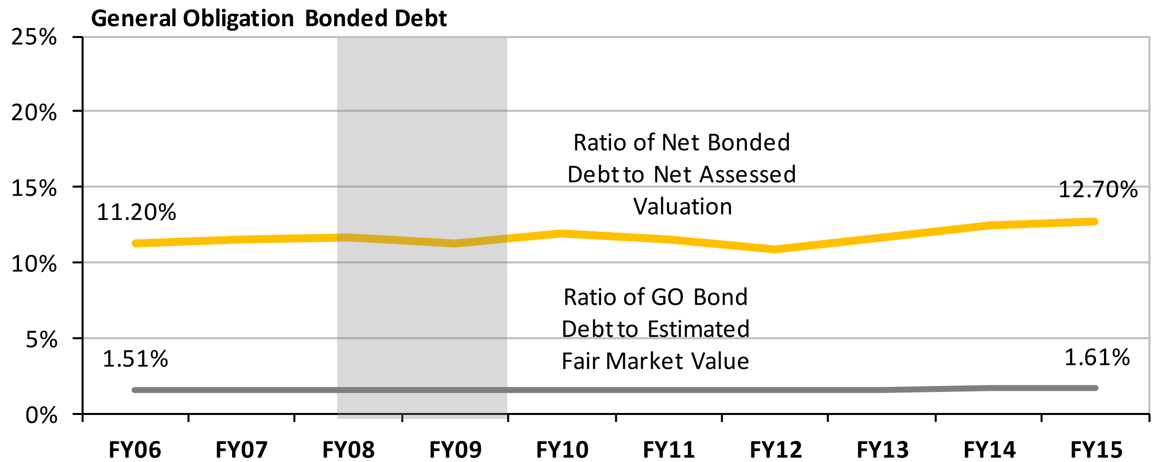
Formulas:

Enterprise Working Capital = Current Assets – Current Liabilities

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

LONG-TERM DEBT

NEUTRAL TREND



How is Long Term Debt Measured Here?

Long term debt for this analysis is examined by looking at the General Obligation net bonded debt ratio. The net bonded debt ratio is simply the amount of long-term debt for which the government has pledged its full faith and credit divided by the net taxable assessed value of the property in the jurisdiction. An accelerated debt issuance can overburden a municipality; however, the credit rating industry also recognizes that a low debt ratio may not always be a positive factor since it could indicate underinvestment in capital facilities and public infrastructure.[12]

Why is This Important to Oklahoma City?

Oklahoma City's long-term debt ratio has remained consistent from FY06 to FY13 averaging 11.5% with only slight variations. In FY12 the radio dropped to 10.7% due to the refunding of General Obligation bonds, resulting in a decrease in net bonded debt. To help put the ratios into perspective, long term debt increased 6.2% in FY15 (from $615.7million in FY14 to $653.9 million in FY15) while net taxable assed value increased 4.4%[13]. The increases in the ratio from FY13 through FY15 were due to net General Obligation Bonded Debt growing at a rate faster than net taxable assessed values were growing. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than $110 million for streets. Although the debt grew faster than net taxable assessed value the mill levy remained below the informal policy of 16 mills and therefore, the long-term debt ratio of 12.7% in FY15 is viewed as being stable as a percentage of assessed valuation and is rated as neutral.

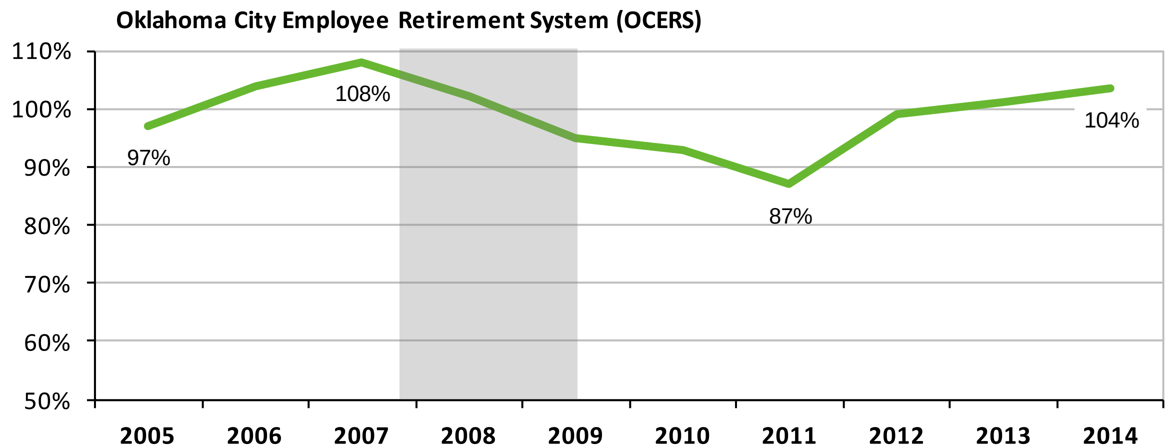
A second indicator was added this year to track the General Obligation Debt as a percentage of the City's Estimated Fair Market Value of taxable property. While similar to Net Bonded Debt, this measure divides General Obligation Bond Principal Outstanding as of June 30 (excluding reserves) by the Estimated Fair Market Value of the City's Taxable Property. Fair Market Value is not capped like Net Taxable Assessed Value so this measure helps track the debt burden set in the City's Debt Policy which states the City's amount of direct unlimited and limited tax general obligation debt outstanding at any time not exceed 3% of the City's estimated full market value. Debt burden that ranges from 3-4% tends to be viewed as average If this indicator were evaluated on its own it would be rated positive due to the context of the ratio, staying well below the debt policy, rather than the year-to-year changes which has stayed steady or neutral, averaging 1.6% annually.

Formula:

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

PENSION FUNDING RATIO

POSITIVE TREND



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?

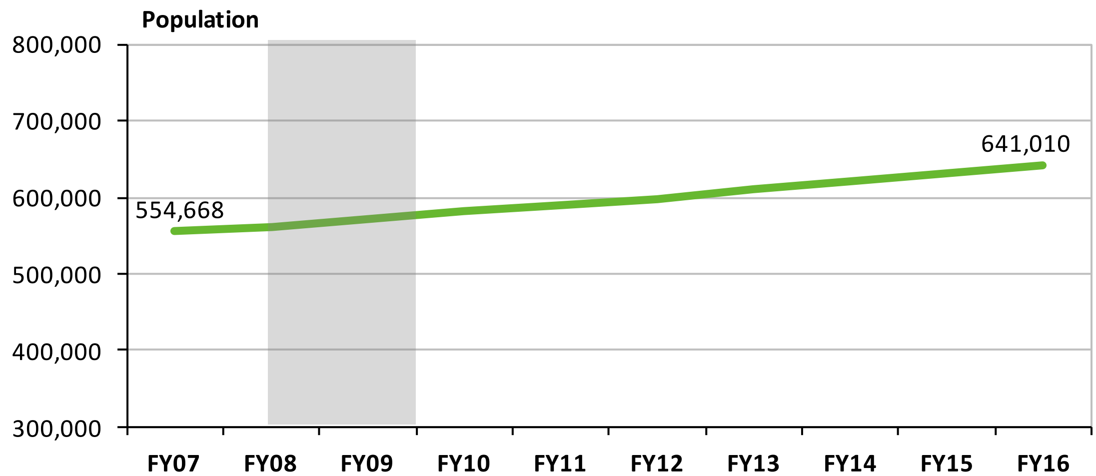
The Oklahoma City Employee Retirement System (OCERS) is the primary pension system for many City employees. Fire and Police uniform employees are covered by state-operated pension systems and Central Oklahoma Transit and Parking Authority employees are covered by a separate pension system. In calendar 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 101% funding the indicator is rated as positive. The City continues to make the actuarially recommended contributions to OCERS.

Formula:

Ratio Provided and Calculated by Pension Plan Actuaries

POPULATION

POSITIVE TREND



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?

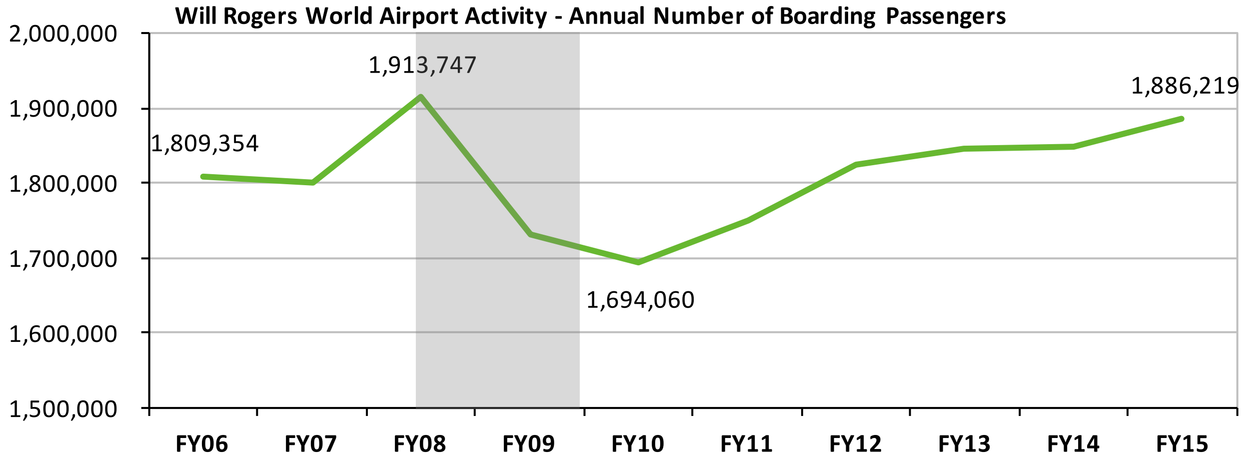
Oklahoma City has been able to increase its revenue base without having immediate, unplanned pressures for capital outlay and increases in service levels. Future monitoring of the population as compared to other financial indicators will help determine the cost of serving new residents in relation to the revenues they contribute through taxes. Oklahoma City has realized consistent growth in population since FY06 with an estimated 641,010 residents in FY16.[14] This is an average annual growth rate of 1.68% over the last five-years. Since the growth has been relatively steady, the trend was rated positive.

Formula:

Population Data from the City of Oklahoma City Planning Department

AIRPORT ACTIVITY

POSITIVE TREND



What Does Airport Activity Measure?

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

Why is This Important to Oklahoma City?

Each of the activities mentioned above can directly affect revenue yields through tax receipts associated with tourism and commerce. Increasing numbers of passengers using Oklahoma City airports are good for the City whether the travel is for business or pleasure. Airport activity for Oklahoma City grew at an average rate of 2.2% over the last five years. Since FY12 Will Rogers World Airport has increased the number of destinations and airports served which has helped fuel some of the increase in passengers. For example, Alaska Airlines began a new non-stop route from Oklahoma City to Seattle July 1, 2015.

Current Year Activity

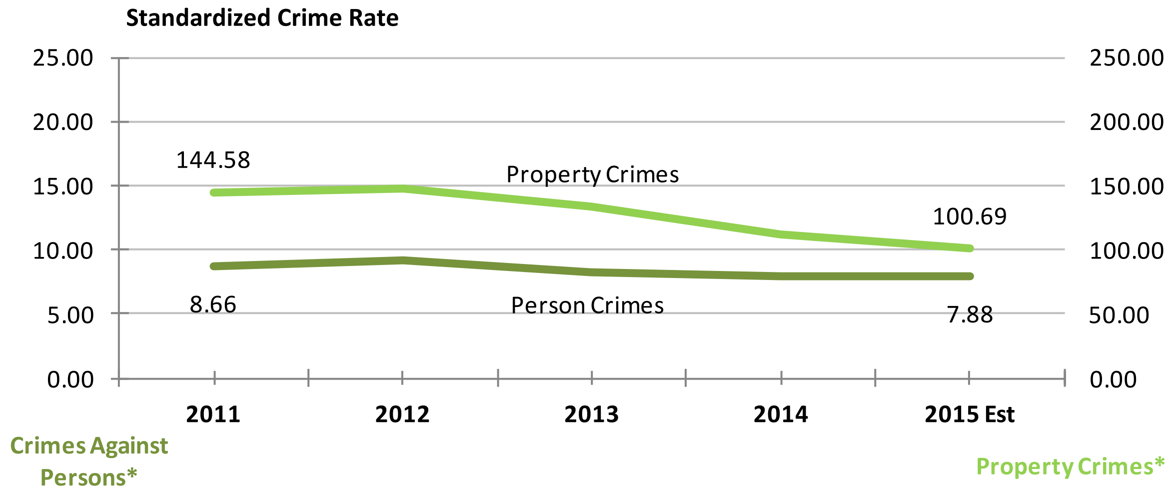
Since February 2015 enplanements at Will Rogers World Airport have been in decline each month when compared to the same month in 2014. Although FY15 posted an increase over FY14 it was due to a strong six months at the beginning of the fiscal year when the average monthly growth rate was 7% from July 2014 through December 2014. If the number of enplanements remains flat in 2016, this indicator will most likely change to a neutral or negative rating next year.

Formula:

Annual Number of Passengers Boarding at Will Rogers World Airport

CRIME RATE

POSITIVE TREND



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

Why is the Crime Rate an Indicator for Financial Condition?

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

Why is This Important to Oklahoma City?

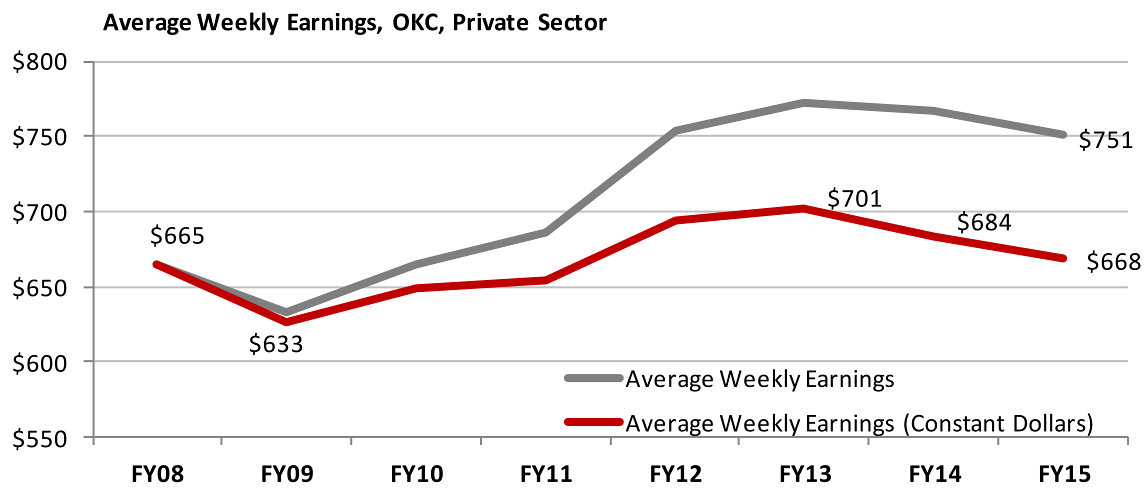
With a third of the General Fund budget dedicated to Police and Courts, monitoring this trend and considering it in forecasts of future expenditures is financially prudent. The number of property crimes per 1,000 households has decreased over the last five years from 144.58 crimes per 1,000 households in calendar year 2011 to an estimated 100.69 in 2015. The number of crimes against persons has decreased from 8.66 per 1,000 in population in 2011 to an estimated 7.88 per 1,000 in population in 2015. The five-year trend of declining crime was the reason this indicator was rated positive. The Police Department attempts to identify crime trends in real time and continues to enhance its efforts with intelligence-based policing and targeted enforcement through analysis of local crime data. The Police Department also continues to embrace Community Based Policing and proactively addresses concerns expressed by Oklahoma City residents. Public Safety is a priority for City Council with 145 positions added to Police Department staffing since FY12.

*Data for 2015 is estimated using actual data from January – September with 4th quarter data being an average of first nine months of 2015.

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

AVERAGE WEEKLY EARNINGS

NEGATIVE TREND



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, 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. Data is for the Oklahoma City Metropolitan Statistical Area (OKC-MSA)

Why is This Important to Oklahoma City?

Attracting and retaining employers with jobs with higher than average wages is one way the City is able to convey its commitment to economic development and its impact on citizen income levels and quality of life. Average Weekly Earnings (AWE) have been declining since FY13 in both current and constant dollars resulting in a negative rating for this indicator. Lower weekly earnings mean residents in the OKC-MSA, on average, are unable to purchase as many goods and services as they once were. This measure replaced Average Weekly Wages this year in order to get timelier and more consistent data. Two of major differences between the earnings and wages data sets is the geographic area and the data within the set. Average Weekly Earnings is reported for the OKC-MSA while the wage data is only Oklahoma County. The second difference is earnings reports wages plus other income such as bonuses while wages is a component of earnings and does not capture other income. In certain industries, annual bonuses can account for up to 40% of annual income so it is important to capture the information.

Current Year Activity

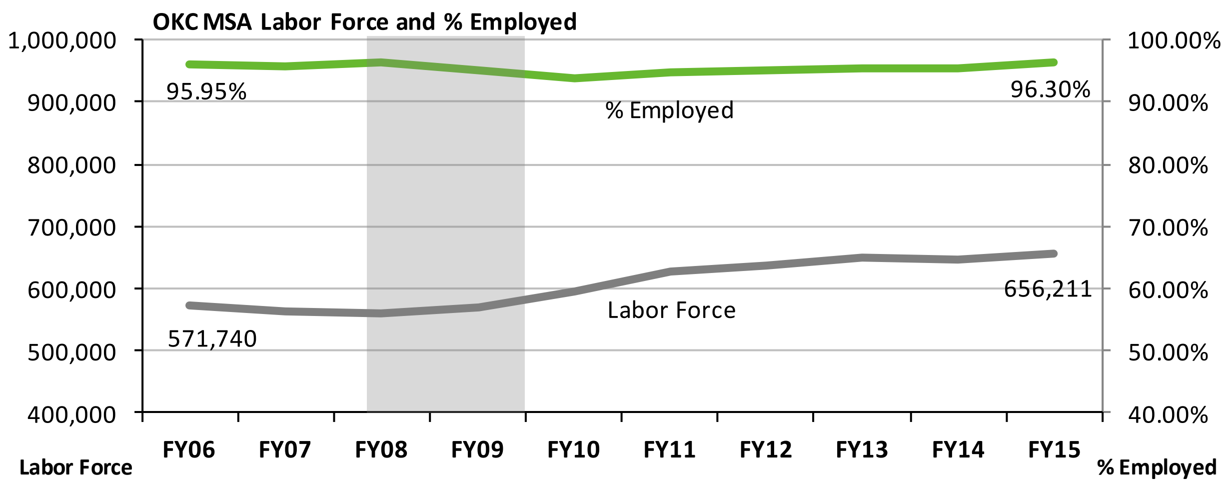
The preliminary Average Weekly Earnings for November 2015 was $739 in current dollars and the 10th consecutive month that Average Weekly Earnings declined from the same month in the prior year.

Formula:

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

LABOR FORCE

POSITIVE TREND



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 one sector. In addition, a higher percentage of the population working results in higher per capita incomes. Both of these factors will have a positive influence on the local government's financial condition. A reduced percentage of employed citizens can be an early sign of an economic downturn, which would likely have a negative impact on government revenues.

Why is This Important to Oklahoma City?

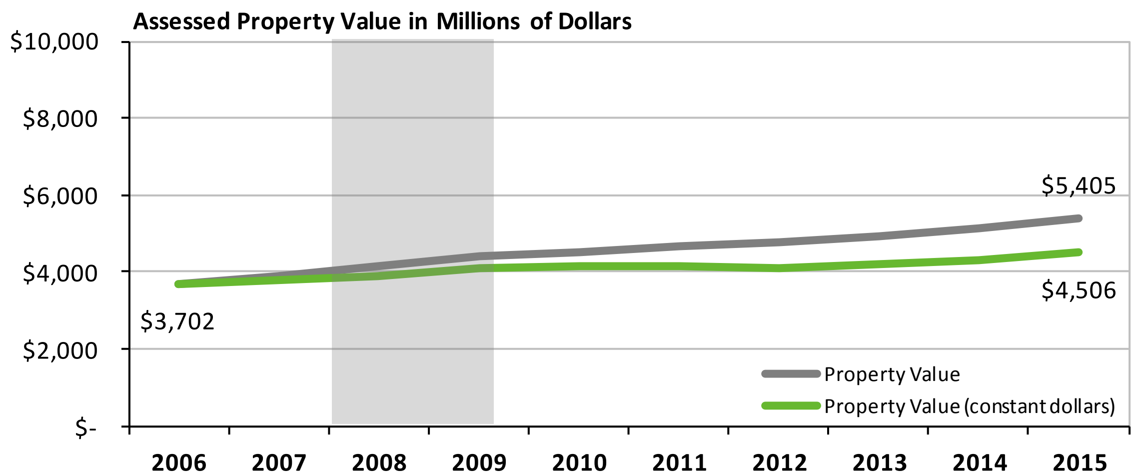
For many economists, an unemployment rate of 5% to 5.5% indicates that the unemployment rate is consistent with stable inflation. While the range for full employment may vary by expert, generally, when the unemployment rate is higher citizens are hurting because they want to work and are unable to find employment; when the unemployment rate is lower, the opposite occurs and employers may be hurting as they are unable to find citizens to employ in positions they have available. In FY15, 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 95% annually. However, the percentage employed should be considered with the size of the labor force. In FY11 the labor force grew by 5% and then slowed to an average of 1% growth annually thereafter. Full employment that has averaged 95% annually for the past five years and annual growth in the labor force resulted in a positive rating for this indicator.

Formula:

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

PROPERTY VALUE

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.[15]

Why is This Important to Oklahoma City?

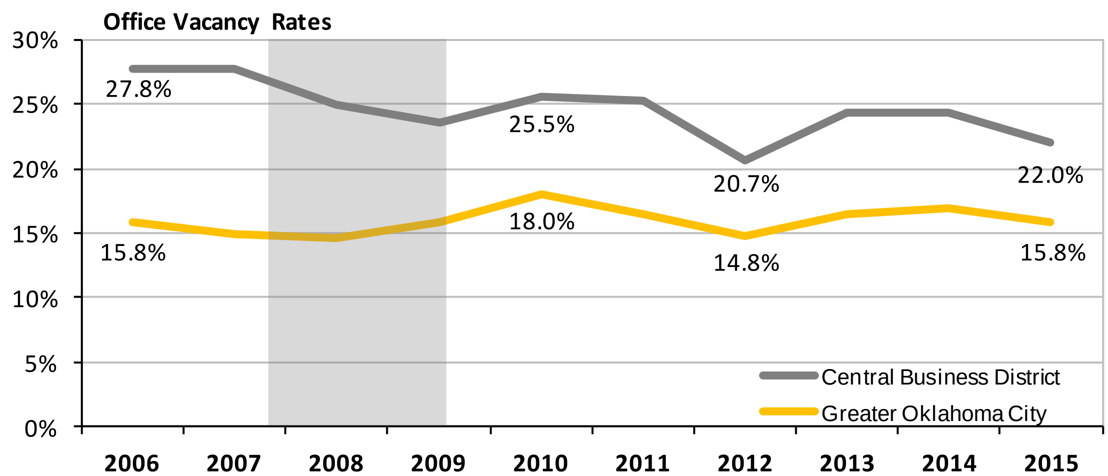
While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City's finances; namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City's debt capacity allowing more capital projects. Oklahoma City's inflation adjusted assessed property value remained flat from 2011 through 2013 and then increased 2.6% in 2014 and 5.1% in 2015.[16] The City will continue to monitor this trend for future affects of the law that reduced the cap on assessed valuation growth from 5% per year to 3% per year, an indicator that recent growth may be attributed to increased economic activity and population growth. Based on the upward trend of inflation adjusted property values, this has been rated as a positive indicator this year, an improvement from the previous rating of neutral.

Formula:

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

OFFICE VACANCY RATE

NEUTRAL TREND



Why is Vacancy Rate an Indicator for Financial Performance?

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

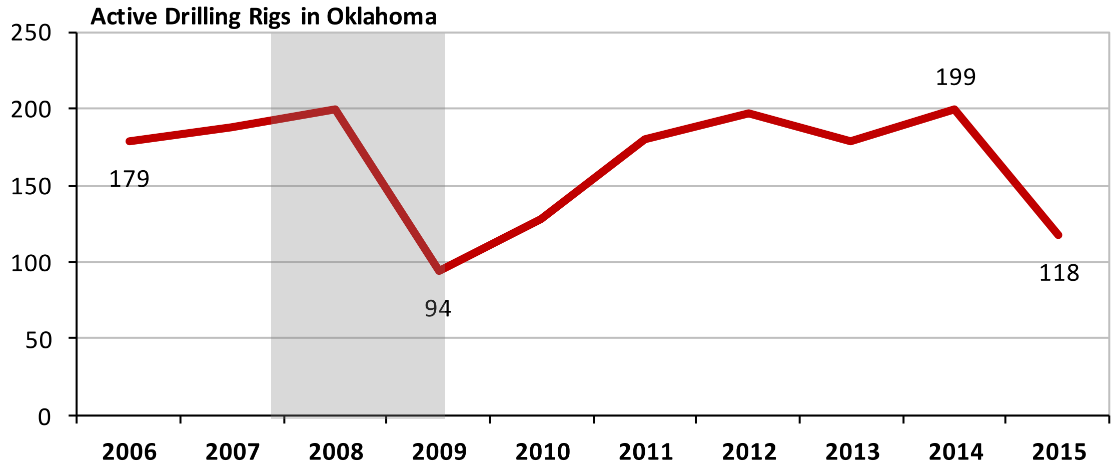
Why is This Important to Oklahoma City?

For the purposes of this trend analysis, the office vacancy rates for Oklahoma City's central business district (CBD) and the greater Oklahoma City area were examined. If vacancy rates increased to an unhealthy rate, it would have a negative impact on property values and incomes. In 2010, vacancy rates were driven up in response to the recession but improved in 2011 and 2012 as the energy sector absorbed more space while new office space was under construction. In 2015 construction of one new office tower was begun at Sheridan and Hudson but plans by OG&E for a new tower were put on hold due to insufficient demand for additional downtown office space. The Price Edwards and Company Oklahoma City 2015 Mid-Year Office Market Summary stated that *"Despite slumping energy prices the Oklahoma City office market continues to achieve healthy vacancy rates and historically high rental rates"*. The market analysis and fairly stable vacancy rate resulted in a neutral rating for this indicator.

Formula: Vacancy Rates from Price Edwards Oklahoma City Office Market Summary[17]

ACTIVE DRILLING RIGS

NEGATIVE TREND



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.

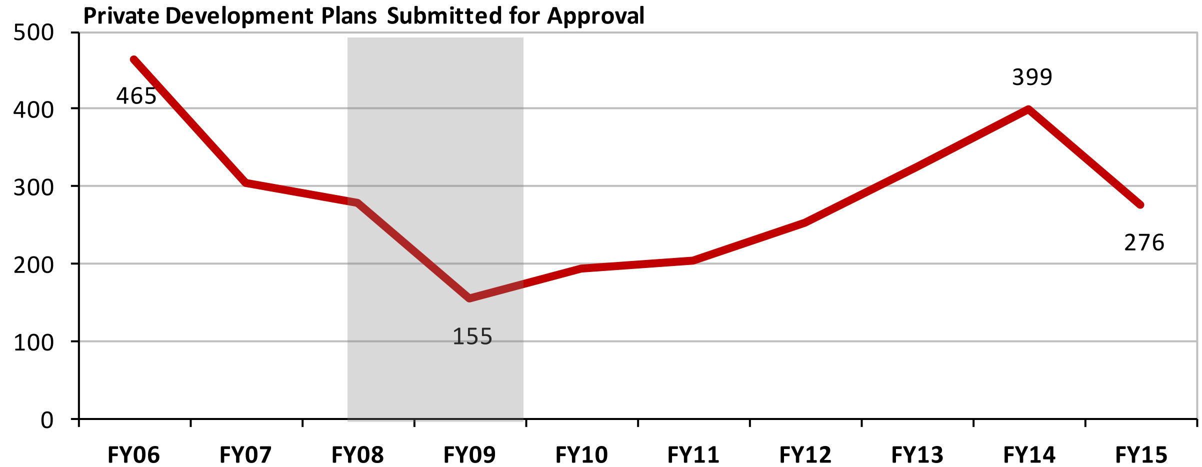
Why is This Important to Oklahoma City?

The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A study[18] 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 from 2009 to 2014. As oil prices began to drop in mid-2014, a drop in rig count followed beginning in February 2015. The average FY15 active rig count was 118; a 41% decline from the average FY14 rig count. As of December 2015, the rig count had declined 11 consecutive months when compared to the same month in the prior year. The projections for the energy sector indicate that growth will remain flat through most of 2016 before a slow recovery begins. The trend in drilling activity and energy sector outlook resulted in the rating of this indicator changing from a positive to a negative rating.

Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated [19]

PRIVATE DEVELOPMENT PLANS

NEGATIVE TREND



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 (roads, water lines, drainage, storm sewers 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 infrastructure plans is a key early step in the development process and provides an indication of the direction of future building activity.

Why is This Important to Oklahoma City?

Private development plans submitted are a key indicator of the confidence local developers have in the economy. These permits set the stage for spending on infrastructure in both residential and commercial developments which precedes spending on construction. An increase in the number of plans submitted shows a level of confidence by developers in the future prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. In addition to indicating the likely direction in the construction sector, the fees paid for plan review provide revenue for the General Fund and in FY15 generated $3.5 million. The actual count of plans submitted to Public Works decreased 30% in FY15. Current revenue collections were down 46% through the first six months of the current fiscal year indicating the decline will continue, therefore the rating was changed from positive to negative.

Formula: Sum the number of plans submitted for sanitary sewer, paving, drainage, storm sewer and water infrastructure to the Public Works Engineering Line of Business[20]

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, 2015.
11 City of Oklahoma City Comprehensive Annual Financial Report, 2015.
12 Nollenberger 79.
13 City of Oklahoma City Comprehensive Annual Financial Report, 2014-2015. Statistical Table 13
14City of Oklahoma City Planning Department.
15 Nollenberger 120.
16 City of Oklahoma City Statement of Debt Service Fund and Requirements from Ad Valorem Tax Levy, 2011-2015.
17Price Edwards Oklahoma City Mid-Year 2013 Office Market Summary. November, 2015. <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
19Baker Hughes Rig Counts. December, 2015 <http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm>
20City of Oklahoma City Public Works Department, December, 2015

FIVE-YEAR
FORECAST
FY 2017-2021

Forecast Issues focus on financial issues that are generally beyond the scope of the annual budget process.

HIGHLIGHTED ISSUES

- Funding of Street Maintenance
- Long-Term Water Capital
- *NEW* MAPS / MAPS 3 Capital Maintenance Costs
- MAPS 3 Operating Costs
- Public Safety Communication System
- Public Safety Service Level Improvements
- Public Transportation System Improvements
- Retiree Health Costs – OPEB

SECTION 5
FORECAST ISSUES

EARLY WARNING SYSTEM

The Forecast Issues section highlights key financial issues facing departments in the coming years. The goal for this section of the forecast is to provide an *"early warning system"* to the City Manager and City Council about significant financial issues that are generally beyond the scope of the annual budget process. 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.

This year we are highlighting nine significant areas for additional attention. Some of these are cross-cutting issues that impact multiple departments, such as MAPS 3 operating costs. Overall, there are a total of 52 issues that departments are facing which are included in this section with a short description of each. All of the issues are listed in the table on pages 90-91.

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; Sales tax; Fuel Tax; and Streamlined Sales Tax for Internet Sales. The first three items listed would all require a vote of the people to enact. 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. The final item, enactment of national standards for streamlined Sales Tax collection, would require federal legislation to put local merchants on equal footing with internet retailers.

NEW SUCCESSFUL OUTCOMES

Successful Outcomes begins on page 105 and was designed to close the communication loop on the issues that dropped off the list.

HIGHLIGHTED ISSUE

FUNDING OF STREET MAINTENANCE

COUNCIL PRIORITY LINK

Develop a Transportation System That Works For All Citizens

Street conditions continue to improve with the assistance of the 2007 General Obligation (GO) Bond funded and General Fund street projects. However, citizen's priorities for the past several years based on the Citizen Survey have been the quality of City streets. A recurring revenue source, other than the General Fund, needs to be identified to support the annual cost of street maintenance so streets are maintained in their current condition.

Prior to FY10, the annual General Fund budget included a transfer to the Street and Alley Fund for various street maintenance projects that supplemented the GO Bond program. The past transfers funded street maintenance that included city-wide base repair contracts, material purchases for micro-resurfacing and chip sealing programs, the annual pavement data collection service contract, and numerous inter-governmental street maintenance projects with surrounding counties and municipalities. Previous transfers have ranged from $2.5 million to $8.0 million annually, with an average of approximately $5.0 million. The transfers were made possible because GO Bond interest was deposited in the General Fund. In FY07, City management chose to let GO Bond interest remain in the bond funds to be used to supplement those projects. The City continued to provide supplemental funding from the General Fund until FY10 when cutbacks forced elimination of that support. Unfortunately, at the same time, low interest rates caused a substantial decrease in interest earnings on GO Bond funds and the revenue source no longer provides sufficient funding for the types of projects previously supported.

When the General Fund experienced strong recovery from the recession, the City Council authorized the transfer of $8 million in fund balance for street and other infrastructure improvements in FY12, FY13, FY14 and FY16.

One alternative to General Fund support would be the implementation of impact fees. Impact fees in Oklahoma can be used for construction of infrastructure, but not for maintenance. Using impact fees to help pay for new infrastructure allows more revenue from general obligation bonds to be spent on maintenance instead of new construction. Impact Fees were explored by staff a part of the City's new comprehensive plan, planOKC and were introduced to Council on January 26, 2016 with public hearings scheduled for February 9th and February 16th.

The proposed Impact Fees would be charged on new development and used to pay for the construction or expansion of infrastructure needs related to growth. Impact fees are used to ensure adequate facilities are available to support new development, to keep taxes down, and to help synchronize development with the installation of new infrastructure. About 60 percent of all cities with over 25,000 residents and almost 40 percent of all metropolitan counties use some form of impact fees. While impact fees can only be used on projects that help alleviate the impact of new development, this would help make GO Bond dollars go further as they could be used for projects that maintain and improve existing streets.

HIGHLIGHTED ISSUE

LONG-TERM WATER CAPITAL

An adequate water supply is critical to the City's success. Water utilities plan water infrastructure 50 years in advance to manage ratepayer impacts of major capital improvements. Such improvements are planned for delivering more water to Oklahoma City from Southeast Oklahoma.

The City's raw water supply comes from the North Canadian River and Muddy Boggy Creek in Atoka County. Lakes Canton, Atoka, and McGee Creek store water for use, which is transported here by the North Canadian River or the Atoka Pipeline. A third water supply, the Kiamichi River at Sardis Lake, has been planned since the 1950's. Additional improvements will be needed to transport the new Kiamichi River water supply to Oklahoma City and deliver it to customers meeting growth needs for the next fifty to sixty years.

The FY16 the Water CIP budget is $232 million and will cover a variety of projects including lift station improvements, sludge handling improvements, engineering for the second Atoka pipeline and lift station and intake power improvements, such as those pictured above which is part of a new 80 million gallon/day auxiliary pump station at the Draper water treatment plant.

Second Water Pipeline to Atoka (OKATOKA2)

The water utility will make a major investment in water supply and Oklahoma City's future when it constructs a second 100 mile pipeline from Lake Atoka to Lake Stanley Draper (Okatoka2). Construction of the second water pipeline to Lake Atoka begins in 2017. Design is underway now with the full complement of needed design engineers to be in place later this year by March 2016. The project will use significant resources from the local engineering and construction communities as well as staff resources in owner work such as permitting, regulatory compliance, and project management. This second pipeline to Atoka will provide adequate raw water supply through 2030 and is estimated to cost more than half a billion dollars with $30 million alone budgeted in FY16 for engineering related to the pipeline.

These significant capital investments will ensure a safe secure water supply for Oklahoma City for generations to come, but the projects will be very costly. Multiple long-range capital program options were developed for financial planning with the analyses used in the completed water and wastewater cost of service rate study.

HIGHLIGHTED ISSUE

NEW MAPS / MAPS 3 CAPITAL MAINTENANCE COSTS

COUNCIL PRIORITY LINK

Enhance Recreation Opportunities and Community Wellness

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. MAPS Use Tax was enacted as the same time as the MAPS Sales Tax with funds being set aside for operating, maintaining, and replacing capital as needed on the original MAPS projects. Those original nine MAPS projects have been in public use for 10 to 20 years and are in need of capital maintenance. 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. During the MAPS 3 Program, Use Tax revenues have been used to provide public safety funding, primarily fleet and equipment replacement. The MAPS Use Tax fund that had been funding operations and maintenance is near depletion and a new funding source will be needed to fund capital maintenance for the original MAPS projects plus the MAPS 3 projects after they are put into public use.

ORIGINAL MAPS PROJECTS

Bricktown Ballpark. The facility is now known as the Chickasaw Bricktown Ballpark and was completed in 1998 at a cost of $34 million.

Bricktown Canal. The mile-long canal links downtown, Bricktown, and the Oklahoma River. The canal opened in 1999 at a cost of $23 million. A recent study led by the OU Institute for Quality Communities made several suggestions for improving access to the canal level, including replacing chair lifts with ramps; adding additional elevators, stairs and a pedestrian bridge; improved landscaping to create better visibility for canal entrance plazas; installing standardized signage to tell visitors where to find restrooms and elevators; and adding murals.

Civic Center Music Hall Renovations. A complete interior renovation of the historic facility was completed in 2001 at a cost of $53 million A recent Utilization Study evaluated the Civic Center Music Hall and recommended a phased approach for more than $50 million in renovations that would address maintenance and operations.

Cox Business Services Convention Center Renovations. Renovation and expansion added more than 100,000 square feet to the facility including exterior refurbishing and roof truss work. The project was completed in 2000 at a cost of $60 million. Although a new convention center is planned, after 15 years of public use some systems will need significant repairs to keep the current facility operational until events can transition into a new center.

Fairgrounds, River Improvements, and New Trolleys. Improvements at the Fairgrounds were completed in 1998 at a cost of $14 million. River improvements began in 1999 and were phased in through 2004 at a cost of $53.5 million. In 1999, nine trolleys were added the City's mass transit system at a cost of $5 million.

Chesapeake Energy Arena (formerly known as the Ford Center). A 20,000 seat facility was constructed for major sporting events, concerts, shows, and exhibitions. The Arena was completed in 2002 at a cost of $87.7 million.

Library/Learning Center. The four-story, 112,000 square foot Library was new construction that replaced the existing library at a different location. The Library was completed in 2004 at a cost of $21.5 million.

The MAPS 3 projects are listed on the following page.

HIGHLIGHTED ISSUE

MAPS 3 OPERATING COSTS

Ongoing funding sources for operation of the eight MAPS 3 projects have not been fully identified. While $777 million is expected to be available for the construction of projects designed to improve the quality of life in Oklahoma City, funding for operations still need to be identified. Costs and exact types of expenses have not been explicitly identified, but it is anticipated that some could be significant.

Oklahoma River improvements and the Fairgrounds improvements. Operators will cover operating expenses through user fees and sponsorships.

Sidewalks. It is anticipated the sidewalks project will eventually require a sidewalk maintenance crew and supplies to make repairs.

Trails. The trails projects and adjacent areas will require maintenance by the Parks and Recreation Department, the scope of which will be determined by the final design.

Senior Health and Wellness Centers. Contractors will operate the Senior Health and Wellness Centers but could include shared maintenance expenses between the City and contractor. The first of four centers is expected to come online in early FY17.

Convention Center. Greater energy efficiency and more usage at the new convention center are expected to limit increases in operating expenses. There could be minimal maintenance costs associated with maintaining both the new convention center and the existing Cox Business Services Convention Center as events transition from one convention center to the other. These expenses could begin in FY20 depending on completion of construction.

Modern Streetcar. The modern streetcar project will be operated by the Central Oklahoma Transit and Parking Authority (COTPA) and will require significant subsidy from the City. The result of the COTPA Alternatives Analysis indicates operating and maintenance costs of the downtown system to be $3 million per year. Operations are anticipated to begin in FY19.

Downtown Park. The operating and maintenance costs of the Downtown Park will depend on the final programming and management structure chosen. The recently completed Master Plan for the Downtown Park projects operations expenses growing to about $3 million per year when completed. There is the potential to fund some of the operating costs through earned income such as temporary parking, event rentals, café, memberships and philanthropy. There is also the possibility of funding park operations through creation of a parking district and/or a business improvement district. Depending on which revenue options are pursued, up to $1.8 million could be generated from the various sources. The 40-acre north section of the park is projected to be completed in 2018 and the 30-acre south section projected to be completed in 2021.

COUNCIL PRIORITY LINK
Enhance Recreation Opportunities and Community Wellness

The Modern Street Car is projected to begin operations in FY19 and analysis indicates operating and maintenance costs of the system to be $4.6 million per year.

HIGHLIGHTED ISSUE

PUBLIC SAFETY RADIO COMMUNICATION SYSTEM

COUNCIL PRIORITY LINK
Provide a Safe and Secure Community

In March of 2000, City voters approved a temporary ½ cent sales tax for police and fire capital equipment projects to run from July 1, 2000 through March 1, 2003. The tax funded a number of public safety capital projects which included a new citywide trunked radio system. While the temporary tax provided funding to purchase this equipment, many of the key system components of the EDACS trunked radio system have been declared at *"end of life"*. They will no longer be supported by the manufacturer after 2019 and will need replacement over the next few years.

The most significant cost is the replacement of the system itself – the microwave transmitters, consoles, software, repeaters and other hardware. The IT Department has hired a consultant to review the existing system, recommend upgrade/replacement options and requirements as well as funding options, and to assist in developing the associated request for proposals for a new system that will allow phased replacement of the current system and radios. Funding identification is a high priority in order to complete the system upgrade/replacement before maintenance ends in 2019. Funding for the Radio System End-of-life replacement/upgrade to Phase II P25 is estimated at $20 million which will need to be financed or leased. An estimated $2 million per year is included in the expenditure estimates to fund a lease or finance option beginning in FY18.

Funding for Non-Police/Fire Radio Replacement, estimated at $5 million, can be delayed until just prior to completion of the Phase II P25 replacement/upgrade. The City is currently funding $1.7 million in handheld radio replacements each year as radios reach the end of their seven year life cycle. The new replacement radios can operate on both the current system and the newer national standard, known as P25. Public Safety radio end-of-life replacements will be completed in FY16 and non-public safety upgrades will be put on hold until the P25 radio system project is near completion. The annual funding for non-public safety radios will be set aside to accumulate towards off-setting the cost of replacing those radios with P25 capable radios when the final switch to the new system is made. Unfortunately, the estimated accumulation will not be enough to off-set the cost of replacing all of the non-public safety radios. Approximately $10 million will be needed to fund the purchase of public safety and non-public safety radios through FY21.

The City is continuing to replace in-vehicle mobile data computers (MDC) and communications equipment on a five-year cycle. This roughly aligns with the annual departmental vehicle and apparatus replacements. The annual MDC replacement is estimated at $1.0 million.

HIGHLIGHTED ISSUE

PUBLIC SAFETY SERVICE LEVEL IMPROVEMENTS

COUNCIL PRIORITY LINK
Provide a Safe and Secure Community

Fire. In response to recommendations made in the fire station location study, three new fires stations were recommended. One of the three stations has been completed and the two additional stations are scheduled to be constructed and opened during the next five years. GO Bonds and MAPS 3 Use Tax, with support from the dedicated Fire Sales Tax will fund the capital improvements, fleet and apparatus, but significant support will also be required to fund operations. Each new station will require an additional 21 positions for a total of 42 new positions. Station 29 was scheduled to open in FY17 but was put on hold due to the revenue forecast for staffing. Station 38 is scheduled to open in FY19, at which time the total cost of the additional positions for both stations is estimated to be $3.6 million higher than current staffing cost.

Police. An extensive review of Oklahoma City Police Department staffing levels was conducted in FY09 when Berkshire Advisors, Inc. conducted a Department Management and Manpower Analysis (staffing study). The study identified the number of staff needed to: 1) improve response times to calls for service, 2) increase clearance rates, and 3) enhance proactive policing to help reduce crime levels. The study was updated by Police Department Staff and presented to Council in December 2013.

The study used workload, namely calls for service, to determine recommended staffing levels rather than officers per thousand comparisons. The study recommended additional uniform and civilian positions for the department. The number of additional uniform positions recommended in the 2013 updated manpower analysis varied from 104 to 268 sworn personnel, with the variance in personnel determining whether the fringe areas of the City receive the same response time standards as the urbanized areas of the City. The study did not address the need for enhancing the level of proactive activity in investigative specialty units such as narcotics, vice and traffic enforcement, which would increase the number of officers needed in addition to the recommended levels. The City has been working to address the number of Police positions. Since FY12, the City has added 145 positions in Police; 126 uniformed and 19 civilian. Additional staffing will be needed in the coming years to effectively meet this demand.

Public Safety Fleet. Over the last several years, the City has used funding provided by temporary use taxes to fund Public Safety Fleet Replacement. The MAPS 3 Use Tax is the current source for funding the purchase of Police Marked and Unmarked Vehicles, Police Helicopters, Fire Apparatus, Fire Passenger Vehicles, Mobile Data Computers, and Handheld Radio Replacement. Current projections show that the MAPS 3 Use Tax will provide funding through FY18. No funding source has been identified to fund the estimated $14.7 million in Public Safety Fleet Replacement needs in FY19 and beyond.

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

COUNCIL PRIORITY LINK

Develop a Transportation System That Works For All Citizens

The City Council has been supportive of improvements to the City's public transportation system due to an increased awareness of the benefits of public transportation brought on by the millennial generation, an aging population, increasing tourism, expanding economic development opportunities, heightened air quality concerns and increasing demand for services for mobility impaired persons. The most recently completed long-range plan found that public transportation in Oklahoma City provides significantly less service and carries fewer passengers than similar cities and is significantly underfunded.

While, the MAPS 3 project plan includes funding for the construction of the modern street car project, transit studies are underway to provide a plan to capitalize on emerging technologies and services to further enhance public transportation over the next 25 years. In addition to expansion, repair and replacement of buses and other equipment, extended service hours, and the utilization of technology can also maximize effectiveness and efficiency of transportation services provided to our citizens.

In recently approved legislation, Congress is requiring transit systems to develop a Transit Asset Management Plan that lays out a strategic and systematic process of operating, maintaining, and improving public transportation assets throughout the life cycle of the asset. In order to adequately maintain transit equipment, regular replacement of aging buses and equipment is needed. The last several bus purchases were made using federal earmarks, GO Bond money and ARRA (Stimulus) funds, all of which are no longer available. In the current fiscal year an estimated $8 million is needed for the replacement of buses. The cost will be covered through grant awards and fund balance and be spread out over the next several years. However, in the long term an estimated $2million will be needed annually to supplement federal grant funds for future bus replacement. In anticipation of future needs $2 million is included in the expense budget beginning in FY18. Additionally, to continue with further frequency improvements on existing routes additional buses will need to be added to the fleet. At this time there is no funding source for additional buses.

In the coming years, discussions of the preferred size and scope of the transit system will drive the type of funding source to be considered and securing a dedicated source of funding would provide the transit system with the stability and funding levels needed to offer a higher level of service than is currently possible because of competing demands on the General Fund. Over the past five years, the General Fund support has been the largest revenue source of the Transit budget.

HIGHLIGHTED ISSUE

RETIREE HEALTH BENEFITS – OPEB

COUNCIL PRIORITY LINK
Maintain Strong Financial Management

The City and its related trusts have a number of potential obligations that stretch out 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. In addition, the OPEB service requirements to receive benefits are less stringent than the Oklahoma City Employee Retirement System (OCERS) and the fire and police pension plans. The result is that the plan is almost completely unfunded and the OPEBT has a total unfunded liability in excess of $400 million.

Biennially, actuaries estimate the total cost of those obligations and compare that to the funds set aside for that purpose. That estimate is then used to calculate a ratio of how much of the obligation is funded by the current resources available. If the obligation can be fully funded by the current assets committed to that purpose, the obligation is 100% funded. When the ratio is less than 100% there is an unfunded liability. OPEBT's current funding level is 7%. Unfunded liabilities in these areas can negatively affect bond ratings and investor opinions about the City, which could ultimately lead to higher borrowing costs.

The General Fund retiree health insurance subsidy directed to the Other Post-Employment Benefits Trust, competes with other General Fund funding demands. To help address the large OPEB liability, City staff is preparing several changes for Council consideration in the near future. Those changes being developed include:

- Restricting eligibility for subsidized retiree health insurance to those employees who take early retirement to those who have worked at least 15 years with the City and have reached age 60. The current requirement is only 5 years of service and age 55 to be eligible for subsidized retiree health insurance.
- Limiting subsidized options for Medicare-eligible retirees to only the Medicare Advantage plans. Retirees could still access the indemnity and HMO plans if they are willing to pay the full premium.
- End City support for retiree health insurance for new employees. Employees hired after a date in the future would 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. This change will take some time to have a significant impact, but will eventually eliminate the OPEB liability all together.

FORECAST ISSUES BY DEPARTMENT

Department		Issue	Facility	Fleet	Personnel	Services	Supplies/Materials	Page No.
Airports		Construction of a Third Five-Story Parking Garage	●					92
		Maintain and Improve Existing Building Systems and Aging Infrastructure	●					92
		Terminal Expansion and Building Improvements	●					92
Auditor's Office		Contracted Information Systems Audits				●		93
		Timely Response to Risk Assessments			●			93
City Clerk's Office		Central Facility for City Records	●		●			93
	NEW	Increasing Demand for Records			●			93
Development Services		Abandoned Buildings Program				●		94
		Improving Live Release Rate			●	●	●	94
		Increased Technology Demands			●		●	94
Finance	*NEW*	MAPS / MAPS 3 Capital Maintenance Costs	●			●	●	84
		MAPS 3 Operating Costs		●	●	●	●	85
		Retiree Health Insurance - OPEB			●			89
Fire		Facility Renovations	●					94
		Public Safety Fleet		●			●	94
		Public Safety Service Level Improvements	●		●			87
General Services		Americans with Disability Act (ADA) Compliance	●				●	95
		Facility Asset Management			●			95
		Fleet Services		●				95
Information Technology		Public Safety Radio Communications System				●	●	86
Municipal Counselor's Office		Emerging and Complex Areas of Law			●	●	●	95
		Increasing Operational Expenses				●	●	96
Municipal Court	*NEW*	Business Process Changes			●	●	●	96
		Loss of Public and Employee Parking	●					96
		Possible Relocation of the County Jail		●	●		●	96
		Properly Equipping and Maintaining New Court Facility					●	96
Parks and Recreation		Civic Center Music Hall Utilization	●					97
		Operating Partnerships, Collaborations, and Funding			●	●	●	97
		Parks Facilities	●					97
Personnel		Healthcare Reform			●	●		98
		Occupational Health Clinic	●				●	98
		Professional Services Contract to Update the Physical Requirements and Working Conditions on Job Descriptions				●		98
		Retiree Health Benefits - OPEB			●			89

FORECAST ISSUES BY DEPARTMENT

Department		Issue	Facility	Fleet	Personnel	Services	Supplies/Materials	Page No.
Planning		Implementation of Comprehensive Plan			●	●		99
		Neighborhood and Commercial Revitalization				●	●	99
	NEW	Social Services Program				●		100
	NEW	Arts and Cultural Affairs			●		●	100
Police		Public Safety Fleet		●				101
		Public Safety Service Level Improvements		●	●			101
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Public Information & Marketing		Aging Video Equipment					●	102
		Citizen Engagement and Customer Service Delivery			●	●	●	102
		Public Events Management			●			102
Public Transp. & Parking		Bus Stop Improvements				●	●	103
	NEW	Off Street Parking Sustainable Growth	●					103
		Public Transportation System Enhancements		●	●	●	●	88
Public Works		Funding of Street Maintenance				●	●	82
	NEW	Project Management and Inspections		●	●	●		103
	NEW	Storm Water Quality		●	●			104
Utilities		Expiration of Major Operating Contracts in CY16				●		104
		Long-Term Water Capital	●			●	●	104
	NEW	Reclaimed Water				●	●	104

AIRPORTS

Construction of a Third Five-Story Parking Garage

Airport staff is tracking the percentage of public garage parking that exceeds 85% of capacity. In FY14 and FY15, parking exceeded 85% capacity by 68% and 74% respectively. Garage parking between 80% to 84% of capacity in FY14 and FY15 is 13.75% and 9.63 % respectively. In the first quarter of FY16, public parking in the garage exceeded 80% of capacity by 93.48%. More passengers seem to prefer garage parking given Oklahoma City's propensity for severe weather and convenience to the tunnel walkway to enter the terminal. A third parking garage with dedicated vehicle ramps is anticipated in the next few years. A parking study is currently under way to determine the best options for a third parking garage.

Maintain and Improve Existing Building Systems and Aging Infrastructure

Some of the Airports building systems and infrastructure at Will Rogers World Airport (WRWA), Wiley Post Airport (WPA), and Clarence E. Page Airport are original and date back to the 1960's. The continued development at the City's airports is beginning to put a strain on infrastructure such as storm drainage systems, building systems, and various pavements. Studies were performed to determine the scope of drainage projects over the next five years at WRWA and WPA to accommodate current and future development demands. Drainage projects identified will be programmed in the Airports 5-year capital improvement program. Aging building systems and facilities will continue to be evaluated to determine required maintenance, replacement or disposal. A priority is to evaluate the Airports escalators, elevators, and moving walkways. An inspection program will be used to identify aircraft ramps and vehicular pavements before they are beyond repair and require complete reconstruction.

Terminal Expansion & Building Improvements

Air service enhancements such as new non-stop destinations and increasing flight frequency to some cities has resulted in an increase in boarding passengers at Will Rogers World Airport by 2% per year on average from FY13 to FY15. These enhancements along with recent airline mergers and requirements for passenger and baggage screening are affecting passenger flow and circulation in the terminal. Also the central terminal has some facility constraints that, if not addressed, could negatively affect customer service and convenience. Steady passenger growth along with facility constraints has prompted the Airport to begin design of a 150,000 square foot terminal expansion that will add four gates, consolidate existing security checkpoints with a new eight lane checkpoint, and an observation gallery. The existing checkpoints will be converted to meeter/greeter lounges, eliminating congestion at checkpoint queue and exit lanes. The expansion will address other functional needs such as relocating Airport Police, Airport Operations, and YMCA Military Welcome Center into the terminal building, and updating way-finding signage throughout the entire terminal. There is also a need to create additional administrative office space for Airports staff as well as building lease space for other tenants such as Transportation Security Administration staff.

AUDITOR'S OFFICE

Contracted Information Systems Audits

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

Timely Response to Risk Assessments

Addition of up to three Audit Manager or Senior Auditor positions to provide timely response to programs/operations identified during triennial risk assessments (i.e., internal control weaknesses, areas of exposure to loss, and/or opportunities for improvement) may not be addressed timely due to lack of audit personnel.

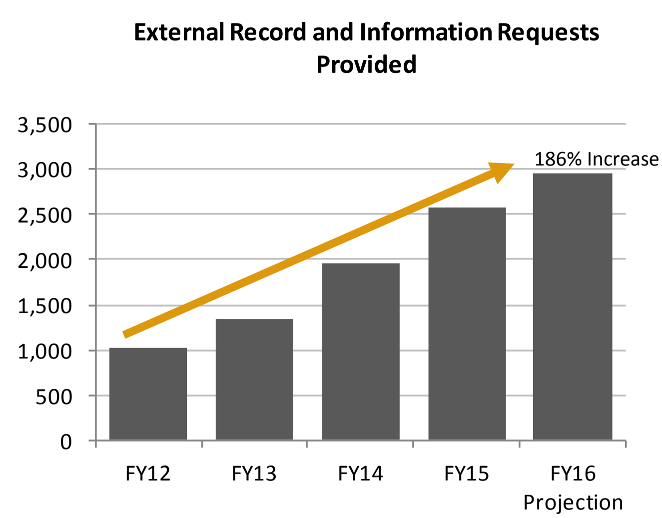
CITY CLERK'S OFFICE

Central Facility for City Records

Establishment of a central facility for City-wide records management will provide timely access to records, ensure record retention and destruction are performed as provided by law, and provide a secure, controlled environment for records. Currently, City records are created in 16 departments across numerous locations, and each department maintains a backlog of inactive records both on paper and electronically. Many original city records are currently stored in remote locations not accessible to citizens for open record requests. There is a lack of consistent storage and handling of records; often the location of certain documents is unknown. The City of Oklahoma City requires 8,000 square feet of storage space dedicated to housing paper records. An additional 2,000 square feet of office space will provide for a staff work area. A facility of this size will accommodate 35,000 cubic feet of paper records and a minimum of three staff members. To establish an efficient records management center, factors to be considered include: records growth – both paper and electronic, records destruction, records retrieval, software systems, building requirements (climate control, fire suppression systems, security systems, pest control, etc.), storage requirements (shelving, boxes, file cabinets, etc.), and the number of employees to operate the facility. Cost information will be gathered from peer cities that have established a City-wide records management facility.

NEW Increasing Demand for Records

The City Clerk's Office received 2,579 requests for records in FY15 and that number is growing. The number of external record and information requests fulfilled has increased by 186% over the last 5 years and the amount of staff in the department has remained the same. This, coupled with widespread growth in construction and development projects has significantly increased the workload of Records Control Technicians in the Information Program. In addition to responding to requests; publication notices, meeting notices, and land document filings must be processed in a timely manner so project work can begin on schedule. The number of land document filings and notices to the public has increased an average of 25% every year. Staffing levels have remained static in the City Clerk's Office despite these increases in workload. An additional staff member would increase productivity and ensure the demand for service is met.



DEVELOPMENT SERVICES

Abandoned Buildings Program

The number of vacant and run-down structures in our city is growing and poses increasing threats to the stability of neighborhoods and safety of our citizens. Efforts could include public information programs, increased neighborhood engagement and enhanced code enforcement. Additional programs may include demolition, rehabilitation, and offering land banking solutions or incentive programs for redevelopment. Local funding of $1,000,000 per year for an Abandoned Building Fund would provide seed money to establish and implement effective programs.

Improving Live Release Rate

Reaching a 75% live release rate is the top priority for Animal Welfare. While continued improvement has been made toward this goal, it still has not been reached. Keys to reaching this goal are lowering animal intakes and increasing the number of animals adopted or transferred out. Increased staff support is needed to maintain and increase these programs. Central to that support are funding for positions that were implemented through grant funding. These include a part-time Volunteer Coordinator, Adoption Coordinator, Foster Coordinator, Transfer Coordinator, Community Cats Liaison and Veterinarian Assistant. A full-time Veterinarian and Veterinarian Assistant are needed to provide sterilization surgeries and maintain herd health; and an increase in media involvement and program promotion warrant the addition of a Public Information Officer.

Increased Technology Demands

The Development Services Department increasingly relies on technology to effectively operate its programs. The quality of IT support is appreciated but is not adequate in some aspects. The increase of technology demands in Development Services, as well as other City departments, requires a parallel increase in IT resources to implement and maintain the technology. Development Services has an immediate need for resources to address Accela implementation and maintenance; customer friendly website; scanning support for Subdivision and Zoning, and the Development Center; the placing of reports and commission agendas online; electronic submission of legal descriptions for rezoning; additional licenses for Arc Map Information; and Computer Aided Dispatch reporting for Animal Welfare.

FINANCE

NEW **MAPS / MAPS 3 Capital Maintenance Costs** *(Highlighted Issue – See page 84 for additional information)*

MAPS 3 Operating Costs *(Highlighted Issue – See page 85 for additional information)*

Retiree Health Benefits - OPEB *(Highlighted Issue – See page 89 for additional information)*

FIRE

Facility Renovations

Renovation of Fire Stations is needed. Damage from deferred repairs can increase the cost of projects and decrease the overall quality of the work and living environment in fire stations. In February 2015, the department hired an architectural firm (MA+ Engineering) to perform an extensive evaluation of facilities and make recommendations that include cost estimates. The evaluation was completed in September 2015 and the funding estimates significant. The report is being reviewed by the department for future funding needs and prioritization of facility renovations.

Public Safety Fleet *(Highlighted Issue – See page 87 for additional information)*

Public Safety Service Level Improvements *(Highlighted Issue – See page 87 for additional information)*

GENERAL SERVICES

Americans with Disabilities Act (ADA) Compliance

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

The Americans with Disabilities Act requires all transit stops to be on an accessible pathway. Many of Embark's bus stops are not connected to sidewalks. In addition each bus stop is required to have a boarding and lighting area and is to be accessible by sidewalk and curb ramp from the nearest cross street in both directions. Gaps in the sidewalk system exist on arterial streets making access to places of public accommodation difficult for many of our citizens. At busy intersections the absence of Audible Pedestrian Signals (APS) exacerbates the difficulty of access. Many neighborhoods are not connected by sidewalk to the sidewalks along arterial streets, which further limits citizen access to goods and services and places of public accommodation. Failure to act on this issue will delay achieving the City Council's priority of *"Developing a Transportation System that Works for All Citizens"*.

Facility Asset Management

Industry standard for square feet maintained per Full-time Equivalent (FTE) is 55,000, including immediate trades supervisors, but excluding administration. General Services' employees, including trades supervisors, are currently maintaining 77,341 square feet of building space per FTE. The problem is compounded by the number of facilities/sites (252) in an area covering approximately 621 square miles. The portfolio of properties serviced by General Services continues to grow at a greater rate than the number of FTEs to maintain them. The new Fire Station #26, the new Southwest Patrol Division (Police), and the new Police Headquarters were added to the portfolio this year. This is an additional 96,526 sq.ft. of space maintained. No sites were closed.

Industry research shows that preventive maintenance is 12% to 18% more expensive than predictive maintenance. General Services is working to move from preventive maintenance to the more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Five 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.

Fleet Services

The average age of the general fleet has the potential to become an issue during the next five years. Aging vehicles require more maintenance, which means they are out of service more often and cost more to operate. When vehicles are out of service, the functions they support cannot be carried out resulting in lower levels of service to citizens. Staff will continue to monitor the strategic fleet replacement plan. To ensure adequate equipment availability, an additional $750,000 annually is projected to be needed by FY21.

INFORMATION TECHNOLOGY

Public Safety Radio Communications System *(Highlighted Issue – See page 86 for additional information)*

MUNICIPAL COUNSELOR'S OFFICE

Emerging and Complex Areas of Law

Due to increasing client needs in new projects, emerging and complex areas of law, labor and employment issues and economic development programs, the Municipal Counselor's Office has committed more attorneys to focus on specific areas and spread other attorney resources more thinly to guard against gaps in service in more traditional areas of municipal law. To maintain the same level of quality service, the Municipal Counselor's Office has begun a restructuring of the organization and will need to re-classify certain positions that are currently under-classified for the level of service provision. The Personnel Department is being consulted regarding pay plan modifications to address those issues and future recruitment and retention. Reclassifications and pay plan modifications would initially involve approximately 12 positions at an estimated cost of less than $30,000.

In addition, two new staff positions are needed: an Assistant Municipal Counselor I in the Labor and Employment Legal Services Line of Business and, one full-time Legal Secretary in the Civil Litigation Line of Business at an approximate total cost of $132,790, for both positions, including benefits.

Increasing Operational Expenses

Certain operational expenses, particularly litigation/court costs, continues to increase annually and fluctuates from year to year. Furniture for two conference rooms is aging and in need of replacement costing less than $15,000. Office copiers, large monitors for conference rooms and scanners will be in need of replacement or purchase over the next few years at a projected cost of approximately $132,435.

MUNICIPAL COURT

NEW Business Process Changes

Municipal Courts is scheduled to implement the new Court Records Management System in 2016. The new system will include Electronic Citation and Parking Software which will be used by the Oklahoma City Police Department. The implementation of this system will increase the workload and additional staff will be needed to review and ensure that cases are updated and processed accurately, to avoid any warrants being issued in error. The added positions will provide for quality assurance and ensure cases are updated correctly and in a timely manner. There may be additional hardware and software expenses required as the system is implemented and enhanced.

Loss of Public and Employee Parking at Municipal Courts

The Municipal Courts leased two parking lots adjacent to the Court from the Oklahoma City Urban Redevelopment Authority and contracted with COTPA to manage them for over ten years. The lots provided 300 parking spaces for patrons and employees of the Municipal Courts, Municipal Counselor, and Civic Center. There were approximately two hundred parking spaces available for Municipal Courts patrons, attorneys, and jurors.

The new Municipal Courts Building is currently under construction and private development on the adjacent lot is underway as well. The private parking lot, East of Lee Avenue and South of Main Street, has been leased on an annual basis from a property developer for Municipal Courts and Municipal Counselor employees. There will not be any off-street parking near the courthouse for court patrons in the near future. Court patrons will have to either park on the street or find a space in a pay lot far from the courthouse. A solution has not been identified to address the parking issue for court patrons. In addition, the parking lot lease for employee parking could be terminated at any time, depending on the needs of the private owner who is a property developer. The cancellation of the parking lease would result in Municipal Courts and Municipal Counselor employees having to park several blocks away in the Sheridan/Walker Parking Garage. The annual financial impact of this parking issue is expected to be less than $250,000.

Possible Relocation of the County Jail

The Oklahoma County Jail remodel or rebuild continues to be a concern for the Municipal Courts. The City prisoners are housed in the Oklahoma County Jail and they are regularly transported to and from the Municipal Courts by means of walking across the street with the City Marshals. If a new jail is built across the street from the Municipal Courts, additional funding estimated at less than $250,000 annually will be necessary. The Marshals will be required to transport prisoners from the County Jail to the Municipal Courts using vehicles. It may be possible to purchase additional audio-video equipment to reduce the frequency of vehicle transfers by conducting additional court events via a secure video link. There will be additional funding required if the County Jail is relocated and the amount of funds required will depend upon the distance between the County Jail and the Municipal Courts. The City may need to consider the purchase of sufficient sized vehicles to decrease the number of daily prisoner transports.

Properly Equipping and Maintaining New Court Facility

Funds have been allocated for construction of the new Court Facility project. The new Court Facility will require supplemental funding for fixtures, furnishings and technology equipment to properly operate a Court of high volume. If this issue is not adequately addressed, the new Court facility will suffer loss of productivity and reduced efficiencies. There may be a one-time capital costs of an additional $500,000 to $1,500,000 needed to properly provide equipment for the new Court facility.

The new Courts facility will be a 65,000 square foot, three-story building in comparison to the current 42,863 square feet. The additional 22,137 square feet of space will require supplemental janitorial personnel and industrial cleaning equipment to properly clean and maintain the new Court facility. The Municipal Courts will be fully responsible for all utilities and maintenance costs since they will no longer share a complex with Police Headquarters.

PARKS AND RECREATION

Civic Center Music Hall Utilization

The Civic Center Music Hall is entering its 16th year since the facility was partially renovated through MAPS. A recently completed Utilization Study evaluated the spaces not included in the original MAPS and recommended a phased approach to renovations that would provide a minimal impact on patrons and resident companies. The proposed renovations support and advance core purposes of the facility to enhance the customer experience, create memories, continue success and unite the community. The five year forecast emphasizes the importance of necessary repairs and replacement of aging equipment required to maintain the 77 year old facility. The study recommended improvements over five phases at an estimated cost of $53 million, adjusted with annual construction increases, and is not currently funded. To maintain a first class performing arts center, funds will need to be identified to complete recommended repairs and improvements.

Operating Partnerships, Collaborations and Funding

The Parks and Recreation Department is currently responsible for the oversight of over 7,000 acres of parks, trees, green spaces, trails and lake recreation areas, the Oklahoma River and Bricktown Canal, center medians, and State highway right of ways. As part of the City's mission for better health and wellness for its citizens, a collaborative partnership with community organizations is needed in order to revitalize the urban forest tree canopy which will provide cleaner air and water, better aesthetic appeal to attract businesses and people, and less energy consumption and will continue to be a driving force within the Parks Department.

As the City population continues to grow outward and away from the urban core, land acquisition to develop parks and green spaces to serve the citizens in their neighborhoods and communities must be included in land planning and development. Funding to purchase lands and develop parks and green spaces must be identified and allocated for future growth.

The continued development and completion of capital projects from MAPS 3, Project 180, Oklahoma City Boulevard, Downtown Park development and white water facility will result in new operational and capital repair funding needs not attainable with the current departmental annual operating budget. Increased programming at all Park's facilities to accommodate the growing demands of the City population results in more frequent maintenance of parks, green spaces, athletic fields, gardens, trails and streetscapes. Identifying opportunities for partnerships, collaborations, and alternative funding streams to meet the level of service needs for these amenities are vital to ensure the expectations of the citizens and visitors to our City are being met.

Parks Facilities

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

Many of the City's 17 recreation centers, aquatic facilities, gardens, senior centers, and the Civic Center Music Hall are in immediate need of improvements. Most have limited programmable space and usability that meet current trends and needs. By strategically targeting some existing centers and facilities for renovation and upgrades, the following will be accomplished:

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

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

PERSONNEL

Health Care Reform

The Patient Protection and Affordable Care Act will overhaul the health care environment in the United States. The Act places new responsibilities on employers that, over time, may well change the nature of employer-provided health care and the way those benefits are provided to our employees. Portions of the PPACA have been altered or have delayed implementation. However, a majority of the factors below went into effect in 2014 with implementation of others continuing through 2018; financial penalties assessed employers failing to provide adequate minimum coverage, auto enrollment of employees, additional IRS disclosure requirements, fees, e.g. health insurer fee, patient-centered outcome research institute trust fund, transitional reinsurance program contribution, excise tax on high-cost coverage, and a potential that employers offer the option of buying from the state exchange plan. The Act also mandates certain implementation requirements regarding essential benefit coverage, insurance exchanges, prevention and wellness incentives, automatic enrollment, consumer protections, notices and disclosures, increase to Medicare payroll withholding, and payroll reporting.

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 Occupational Health Clinic are directly related to an applicant's/employee's job. The City has leased space to house the Occupational Health Clinic from St. Anthony Hospital for over 25 years. Housing the clinic in a City-owned facility would not only save the City rental costs each year, but would also enable the City to customize clinic space to allow the provision of additional services to departments and other municipalities.

The Occupational Health Clinic needs to replace various pieces of equipment used to medically evaluate applicants and incumbents for vision, hearing, pulmonary function, treadmill, etc. The cardiac treadmill is more than 13 years old, and has needed parts replaced over the years. To avoid future costly repairs and interruption of medical services, it is recommended that the cardiac treadmill be replaced within the next two to three years. Equipment failures can cause tests to be repeated and slow the hiring process. The City's Occupational Health Clinic also has to maintain a medical file on every City employee who is evaluated by the clinic. Medical files must be maintained for a longer period of time than non-medical files. As a result, additional storage will need to be acquired within the next five (5) years, or an electronic filing system purchased. Because all medical records are moving to an electronic system, this solution would be extremely beneficial as it would enable the City to communicate with any medical provider outside the City of Oklahoma City.

Professional Services Contract to Update the Physical Requirements and Working Conditions on Job Descriptions

The physical requirements and working conditions for the City's job descriptions were last reviewed in 2010. However, a more comprehensive review is recommended. An organization's classification system is one of the most critical elements of the Personnel function. Job descriptions support virtually every other component of the Personnel function. The physical requirements of job descriptions are used to determine if an individual can physically perform the essential functions of the position for alternate placement related to on-the-job injuries as well as any American with Disabilities issues. Additionally, the physical requirements of a position are used in the development of pre-employment practical factor testing to replicate the tasks associated with the position. Physical requirements are also a critical element of the safety programs City departments are implementing. Due to the Personnel Department's limited staff and the scope of the project, a professional consultant will need to be retained.

Retiree Health Benefits - OPEB *(Highlighted Issue – See page 89 for additional information)*

PLANNING

Implementation of the Comprehensive Plan

The newly adopted Comprehensive Plan (plan**okc**) includes multiple recommendations that will require additional funding and resources to:

- Further develop and grow our economy and tax base
- Fully utilize existing properties and infrastructure
- Maximize our disaster response capacity
- Advance environmental sustainability
- Improve connectivity and compatibility of new development
- Prevent deterioration of commercial districts

Current Planning. Significant modifications to development codes, subdivision regulations and the development review process will need to be made as identified through Plan**okc.**. Although some code revisions and development processes can be developed by City staff, other revisions will require consultant contracts totaling approximately $1 million over four years.

Transportation Planning. The ability to model and evaluate small and large changes in our transportation network is necessary both for analysis of solutions for new development and for successful implementation of the Comprehensive Plan which calls for numerous changes to regulations, policies, and design standards related to the transportation system. Currently, Planning nor the Public Works Department engages in the type of focused transportation planning needed to maximize efficiency of existing and new street networks. Staff has identified the need for a transportation modeling software package and another technically trained transportation planner to provide support as development continues.

Arts and Culture. Plan**okc** calls for the development of a Cultural Heritage Plan to explain, commemorate, and integrate the city's cultural history through landmarks, districts, and facilities. The estimated cost for the creation of a Cultural Heritage Plan is approximately $75,000 and would be completed by the City's Office of Arts and Cultural Affairs.

Sustainability. Post-disaster resilience and economic, fiscal, and environmental sustainability are key themes articulated in plan**okc** and in the adjunct Sustainability Plan currently under development. Key studies needed to implement these plans include a green infrastructure feasibility study, a tree canopy and green space assessment, and a study of the economic impact of the new EPA ozone standard. Additional funds will be needed for air quality monitoring and energy code implementation. The cost of completing these and other related initiatives is expected to be approximately $800,000.

Neighborhood and Commercial Revitalization

Since 2003, federal formula grant funding allocated to the City through the Department of Housing and Urban Development (HUD) has continued to decline and has been reduced by 39% in aggregate. Funding through the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME) has been reduced by 33% and 51%, respectively. This funding supports numerous community development and neighborhood revitalization projects including housing rehabilitation, down payment assistance, affordable housing, infrastructure, and homeless programs, as outlined below.

Neighborhood and Commercial Revitalization Initiatives. The Department's Commercial District Revitalization Program (CDRP) focuses on revitalizing corridors and commercial areas by coordinating infrastructure and community development investment. The CDRP program is currently working with districts like Paseo, Plaza, Western Avenue, MLK Avenue, Uptown/23rd, I-240, Stockyards, Capitol Hill, SW 29th and Windsor, and is experiencing increased demands from the community for services, inclusive of organizational capacity funding and technical assistance. CDRP expenditures have exceeded the budgeted amount, ranging between 24% to 38% increase over the past three years, and have been supplemented through contingency funds. Local funding resources of $550,000 would allow the program to address the growing and evolving needs of the neighborhood and commercial initiatives in an effort to support the Council Priority to promote thriving neighborhoods.

Housing Rehabilitation. The decline in federal funding has a tangible impact on the Planning Department's ability to meet and sustain a growing demand for neighborhood revitalization services. CDBG and HOME funding are the primary investment tools the City uses for revitalization activities that support the Council Priority of promoting thriving neighborhoods. At the current funding rate, it will be more than five years before the Department can respond to all applicants currently approved for services. Therefore, the Department has recently stopped accepting new applications. As federal funding is reduced, resources must be replaced and ultimately increased to address the growing problem.

Community Development Programs. The reduction in federal funding is expected to continue, leaving the Planning Department with an additional shortage of funds to cover personnel expenses. If we are to continue delivering grant funded programs to the community, position salaries will need to be transitioned to the General Fund starting in FY17. The impact to staff positions is particularly acute. In the past, we have been able to utilize special but term-limited programs to cover the funding gap between staffing needs and available sources. The most recent examples are the now defunct Neighborhood Stabilization Program (NSP) and the Disaster Recovery program (CDBG-DR) which started last year and will run for about three more years. The transition between these special programs in addition to declining federal funding has resulted in gaps that need to be addressed immediately, as well as long term. For example, the existing need for HOME dollars to fund staff salaries is estimated at $228,943. For FY16, the Planning Department has $350,575 in HOME administration funds to allocate to staff salaries and overhead. Seven staff members are fully or partially funded with HOME funds. $188,890 of the $350,575 (54%) is "rollover" from previous years. This means that once spent in FY16, it is no longer available to use for next year. Once spent, the Planning Department will have a HOME administration budget of $198,257 (see table below). This leaves a budget shortfall of $30,686 that will need to be filled, assuming that we do not receive further cuts in HOME funds. In FY 17, no rollover funds are expected and greater shortages are projected. Some or most of this shortfall can be made up with CDBG-DR funds, which will be active over the next three years. These funds are merely a short term *"stop-gap"* measure and will not solve the long-term issue.

HOME Administration Budget	Allocation
Admin (10% of $1,671,854)	$167,185
Rollover	$21,572
Program Income (assumed same as previous year)	$9,500

NEW Social Services Programs

Our available records on the City's Social Services grant fund date back to FY04. These general fund dollars are allocated to help the neediest in our community. The dollar amount of $121,000 has never changed since the original allocation despite the increase in population and inflation. This amount is currently distributed among 12 service providers to aid a variety of programs. The 12 service provider are: Be the Change, Community Health Centers, Inc., The Homeless Alliance, Inc., YWCA of Oklahoma City, Inc., Heartline, Inc., Positive Tomorrows, Inc., OKC Metro Alliance, Inc., Urban League of Greater OKC, Inc., Neighborhood Services Organization, Inc., Upward Transitions, Inc., City Rescue Mission, Inc., and Legal Aid Services of Oklahoma, Inc. The programs provided include homeless prevention initiatives; case management services for veterans, youth and the chronically homeless; housing locates for persons with AIDS; and assistance to healthcare providers who treat the homeless.

Federal goals for communities target housing for all countable veterans by the end of 2015 and for all chronically homeless by the end of 2017. Oklahoma City's progress was initially well above average and if sustained, would have met these goals. The City continues to make progress towards these initiatives. Increased social services funding to $350,000 annually could help address some of these problems by boosting our Continuum of Care (CoC) application scores and help prevent a reduction in grant funding.

NEW Funding for Arts and Cultural Affairs

In 2012, the Office of Arts & Cultural Affairs was established to administer the 1% for Arts program, staff the 15-member Arts Commission, and build support for arts and culture throughout Oklahoma City through the following programs and initiatives:

1% for Arts Program. As 1% for Art funding is available, a part-time intern is hired to assist with the art selection processes. At this time, the Office of Arts & Cultural Affairs has a backlog of twenty-four 1% for Art projects with budgets ranging from $5,000 to $692,000.

Technical Assistance and Training. The Arts Liaison provides technical assistance to neighborhoods, schools, districts, and artists. Requests for technical assistance have increased over the past three years and the Office is currently providing support to 27 entities. The Office of Arts and Cultural Affairs conducts application training for artists and annual Arts commissioner training.

Master Plans. The Arts Liaison is currently coordinating the development of three public art master plans which will require staff resources for implementation: AMP UP OKC: A comprehensive art master plan; Fairgrounds Public Art Master Plan; and MAPS 3 Trails Public Art Master Plan.

Public Outreach and Alternative Funding. The Arts Liaison manages all public relations and marketing for projects, art opportunities and trainings, relying heavily on social media (Facebook, Twitter and Instagram), direct emails to appropriate groups throughout the state, and through the Americans for the Arts-Public Art Network listserv. Currently, there are insufficient resources to apply for grants and to manage grant funds awarded.

With current staffing levels, the Office of Arts and Cultural Affairs program cannot operate beyond administering the 1% for Arts ordinance and staffing the Arts Commission. Additionally, at the end of FY 16, the City will no longer have art handlers on contract to install and remove public artwork, fabricate and install art markers, clean, test, appraise, pack, transport, and store artwork owned by the City. This function will have to be absorbed by staff. The Office is staffed by one full time Program Planner, who serves as the Arts Liaison to City departments and members of the community. Administrative Coordinator support is shared with the Office of Sustainability work section and the Planning and Redevelopment Division. A full time Administrative Coordinator position, estimated at $58,860, will help offset administrative workload assumed by the Arts Liaison, allowing the Office of Arts & Cultural Affairs to better achieve its expectations and commitments.

POLICE

Public Safety Fleet *(Highlighted Issue – See page 87 for additional information)*

Public Safety Service Level Improvements *(Highlighted Issue – See page 87 for additional information)*

Technology

The Oklahoma City Police Department is currently implementing a pilot program to outfit 100 field officers with body worn cameras as a tool to document contacts with the public. The cameras will capture video and audio recordings, which provide documentation/evidence of law enforcement activities including traffic stops, public contacts, emergency responses and critical incidents. Use of these recordings will improve the level of documentation of arrests and other police actions.

The purchase of cameras, licenses, storage and additional personnel to maintain the technology and data could cost the City as much as $3.8 million over the next five years, if fully deployed. As the public demands more openness and transparency in their public safety agencies, body worn cameras provide a mechanism to document interactions with the public. The use of body worn cameras has also proven to reduce complaints and help protect officers from false allegations of misconduct, as well as provide the City with video evidence in responding to tort claims or lawsuits.

In addition to body worn cameras, implementation of other new technologies may increase the number of crimes solved and shorten the time for resolution. New technologies implemented with Homeland Security and Urban Area Security Initiative grant funds and the Public Safety Equipment Tax will need to be replaced and maintained to continue to provide the same level of service to our citizens and visitors. In order to take advantage of new police technologies, additional human and financial resources may be needed.

PUBLIC INFORMATION AND MARKETING

Aging Video Equipment

Television and video are two of the most effective communications tools to allow residents to see government in action. In addition to City Council, we broadcast other public meetings and City programs via Cox Cable and produce programming in our studio and videos that we regularly post on YouTube and other social media. Technology has not only changed the way we communicate with citizens, it has also changed the equipment we need to broadcast and produce video. Over the years keeping up with changing technology has been a challenge. Equipment purchases and upgrades were only made to replace broken or obsolete equipment and as funds allowed. However, to continue to effectively use this communication media an ongoing program to invest in new equipment and technology is needed. Long-term capital needs include scheduled equipment upgrades and replacement for cameras, microphones, tripods, lighting, computers, tripods, set upgrades, digital playback servers, control room equipment and video storage.

Citizen Engagement and Customer Service Delivery

Customer service is a core function of government. With improvements to customer service in the private sector, citizens have heightened expectations as to how services should be delivered by government employees. They increasingly expect to access government information and services from phones, tablets, or other devices, when and where it's most convenient for them. With citizen expectations at an all-time high, we are increasingly challenged to improve how we deliver customer service.

In the 2015 Citizen Survey, residents rated the quality of customer service from city employees – 57% down from 66%; and the effectiveness of city communications with the public 49%, down from 52%. Residents' ratings for the accuracy of information given (70%) and how well their issue was handled (64%) was also down. Improving customer service involves more than just one solution. Transparency is essential for improving customer service and the effective use of technology is critical to improving service delivery. Technology is not only imperative to improved and optimized customer service processes, it also provides a direct link to our customers giving them better access to services and allowing them to communicate with us about our programs and the different ways we serve them.
Social media will continue to effectively deliver information and services, especially to specific populations or demographics. Contact centers will also continue to be an important channel to serve citizens. While digital contact channels are gaining preference with some demographics, many people still prefer face-to-face or phone contact. Contact centers, such as the Action Center, provide integration between channels through knowledge bases used by the website, contact center representatives and other customer touch points. Enterprise customer relationship management (CRM) tools help manage the customer experience across the entire organization, eliminate redundancy and improve service delivery.

Finally, the importance of face-to-face communication and talking with citizens can't be minimized. We have to get out of our offices to find out what people are talking about, what they are saying. We've got to go where they are, listen to them and talk to customers face-to-face. A customer may start out on our website, send us an email, tweet about a concern, call the Action Center and show up at a public meeting. We must work to align our operations and share information across all our contact channels -- email, phone, chat, website etc. -- to ensure customers get the same correct answer, regardless of the channel they choose.

Public Events Management

Well managed public events are important to a vibrant community. They are a quality of life issue that not only contributes to our city's social fabric but also the local economy. Citizen survey results tell us residents want to receive more information about festivals and events. That is no surprise since the number of walks, runs, parades, festivals and other community events in Oklahoma City continues to grow in both size and frequency. In FY15, 228 special events permits, 129 revocable permits, and 62 assembly permits were processed and 89 events attended.

The growth in events in our city brings challenges of complex and conflicting needs and concerns of event promoters and businesses. We've had to dedicate more City resources and better manage them and modify our processes, policies and ordinances to keep up with demands. Staff must work to ensure compliance with city ordinances while also building positive relationships. The other major challenge is the affect of the proposed streetcar route and other developments that affect downtown -- the preferred location for most events. The City will need to take a more focused approach to the efficient use of city streets, public safety, crowd control, staff and resources to ensure the success of this quality of life issue that citizens appreciate and want.

PUBLIC TRANSPORTATION AND PARKING

Bus Stop Improvements

With ridership for the EMBARK bus system growing, 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 the last year, bus stop improvements have been minimal in the past thereby creating a backlog of bus stop locations in need of covered bus shelters and/or accessibility improvements. With 25% of citizens indicating covered shelters is the most important consideration in deciding whether to use public transportation, continued interdepartmental collaboration and local funding is needed to provide the bus shelters and accessibility improvements required to develop a transportation system that works for all citizens.

NEW Off Street Parking Sustainable Growth

High demand for parking in downtown Oklahoma City is expected to continue for the forecast period. Overall occupancy rates in the off street municipal parking system, managed by the Central Oklahoma Transportation and Parking Authority (COTPA), have exceeded 100% for the past several years. High current occupancy rates, combined with additional development downtown by both the private sector and through MAPS 3 projects such as the downtown park and convention center, are expected to create further demand for parking. These factors, along with planned private parking structures for new development along Sheridan Ave between and around Hudson and Walker are included in a parking study being conducted by the consulting firm Kimley – Horn. Results of the parking study are expected to show additional parking needs for downtown Oklahoma City's future, some of which will need to be fulfilled by the municipal parking system. The Public Transportation and Parking Department will continue to support efforts by the private sector to increase the public parking supply; however, the private sector has been slow to embrace parking garages as a preferred development option. The Modern Streetcar, serving as a downtown circulator, will also be leveraged to maximize the use of the existing municipal garages. Nonetheless, at least one additional municipal parking garage will be needed in the next five years. The location of the garage has not been determined.

Public Transportation System Enhancements *(Highlighted Issue – See page 88 for additional information)*

PUBLIC WORKS

Funding of Street Maintenance *(Highlighted Issue – See page 82 for additional information)*

NEW Project Management and Inspections

Project Management. The number of Capital Improvement Program projects not funded through the GO Bond program continues to increase. Projects for the Zoo, Airports, Fairgrounds, Parks, and COTPA have all been managed by Public Works department staff during the current fiscal year. These projects include, basement renovations of the 100 N. Walker Building and 420 W. Main, Will Rogers Tennis Center, and Arts District Parking Garage.

As the number of project management requests from other City departments continue to increase, Public Works is not able to keep up with the demand. Staff estimates a minimum of two additional Construction Project Managers are needed to maintain a manageable work load for each Project Manager.

Inspections. Additional inspection staff will be required in Field Services to handle increased workloads associated with the increased number of new construction projects. Currently, the average number of projects each inspector is responsible for completing a daily inspection report for is 15. The average monthly number of new construction projects received by the division each month is provided below.

FY12	27 new construction projects / month
FY13	36 new construction projects / month
FY14	38 new construction projects / month
FY15	43 new construction projects / month

If the number of new projects continues at the current rate, a minimum of two (2) additional Construction Inspector positions will be needed to meet the increased workload at an estimated cost of $120,000/year.

NEW Storm Water Quality

Additional inspection staff will be required to handle increased workloads associated with the increase of new construction projects in Storm Water Quality (SWQ). Each inspector is responsible for completing erosion compliance inspections on all permitted storm water discharge construction projects. Currently, there are five (5) inspectors inspecting 1,380 construction projects, averaging about eight (8) weeks between site inspections.

In FY15 SWQ reviewed 1,192 plans. Since the beginning of FY16 SWQ has reviewed 337 plans. If this trend continues throughout FY16 this would be an increase of 156 plans from the previous year. If the number of new projects continues to increase, a minimum of two (2) additional Construction Inspector positions will be needed to meet the increased workload at an estimated cost of $120,000/year.

Since 2013 the City has averaged 1,400 active permits. This calculates to 275-300 jobs per inspector. The workload has been a burden for the past three (3) years and between vacation/sick leave, Action Center requests, and other projects, the number of inspections made at each project is limited. Past experience has shown that if the inspectors do not visit each site on a regular basis the erosion controls will not be maintained which generates citizen complaints about mud in the street, dust control and other construction issues from these projects.

UTILITIES

Expiration of Major Operating Contracts in Calendar Year 2016

Procurement of new long-term service agreements for wastewater treatment plant operations and the majority of solid waste collection services is underway. Competitive rebidding will provide an opportunity to consider service adjustments and enhancements. The wastewater plant operations agreement requires roughly one-sixth of wastewater income while the solid waste collection services agreement requires 35% of OCEAT's total income. New pricing is inevitable and may materially alter expense forecasts, while phase-in opportunities exist to help ameliorate the financial impacts of change.

Expiration of the existing solid waste collection service agreement brings an opportunity to consider alternatives to services. Curbside recycling services could transition from 18 gallon open bins to a 63 or 90 gallon bin with wheels and a lid. Change opportunities will be presented between November and March while actual implementation will occur over multiple years. Technical work estimating landfill life in Central Oklahoma and introducing long-term alternatives will be presented over the next 18 months. We can expect landfill disposal costs, currently under $20 a ton and approximately $5,000,000 a year, to grow as landfill capacity declines. While operating costs are not expected to increase outside normal ranges in the next five years, completing the plan and deliberating a course of action will help assure measured customer cost changes.

Long Term Water Capital *(Highlighted Issue – See page 83 for additional information)*

NEW Reclaimed Water

Oklahoma City's access to multiple water supplies from both east and west Oklahoma served it well in the recent drought as the North Canadian water supply established a new, lower than expected, minimum water yield. Technical and regulatory developments are underway to encourage inclusion of treated wastewater reuse (reclaimed water) in water supply planning. A study has been completed and in the next two years a pilot program will test possible augmentation of Lake Hefner's water supply with reclaimed water. Much technical work and testing is required, including consideration of cost, drinking water quality, lake water quality, ecosystem changes, and customer acceptance.

NEW SUCCESSFUL OUTCOMES

Just as new issues are added to the list each year, other issues drop off the list because the needs were met, the issue was restructured so that it has become manageable through existing resources, priorities changed, or the issue resolved itself through other means such as legislative or regulatory changes. To close the communication loop on the issues that dropped off the list we have added a summary of the item and the resolution below.

CITY CLERK'S OFFICE

City wide Records Management Assessment by Consultant – Change in Strategy. City Clerk staff has undertaken this project with a goal to survey all departments by the end of FY16 to determine their centrailized records management needs. The needs assessment will then be rolled into the City Clerk's current issue of a central facility for City records.

Conversion of Records from Microfilm to Digital Format – Project Completed. Through funding from the Capital Improvement Program, the City Clerk's Office was able to convert 228 rolls of microfilm to a digital format. The records contained more than 1.6 million pages of City Council proceedings from 1987 through 1992.

INFORMATION TECHNOLOGY

Primary Data Center – Project Underway. A contract for construction of a Primary Data Center was awarded in June 2015 with construction expected to be completed in Summer 2016. The facility, located at SW 15th and Portland, will be a stand-alone building designed per FEMA 361 to withstand tornadoes and severe storm events. The building will meet industry standards for a Tier 3 data center meaning it will have redundant components, dual-powered equipment and multiple uplinks which is a critical component to ensuring city operations and finances that depend on the City's network experience minimal interruptions.

PeopleSoft Major Upgrade – Change in Strategy. The Information Technology Department will implement patches and updates to the City's Financial and Human Resources Software, PeopleSoft, on a regular maintenance schedule that can be implemented with the current resources in place of deferring patches and minor upgrades for longer periods of time which then cumulate into major upgrades.

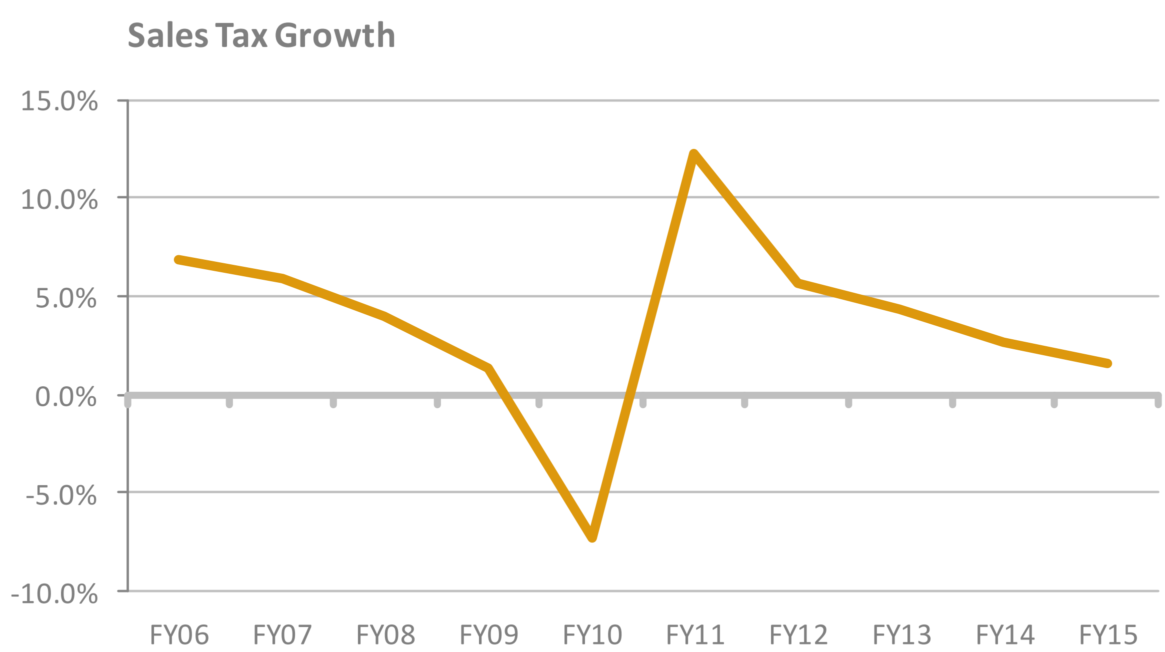
MUNICIPAL COUNSELOR'S OFFICE

Laptops for Criminal Justice – Project Completed. Municipal Courts funded the purchase of laptops for the Municipal Counselor's Criminal Justice Program. The new laptops were purchased to coincide with the implementation of the new Courts Records Management System and electronic citation system in December 2015.

PERSONNEL

Employee Medical Clinic – Project Completed. The employee medical clinic opened in September 2015 and was a major component in support of the City's wellness initiative and effort to control the cost of the health insurance plans. The clinic is operated by CareATC and provides non job-related primary care services to employees and non-Medicare eligible retirees.

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



SECTION 6

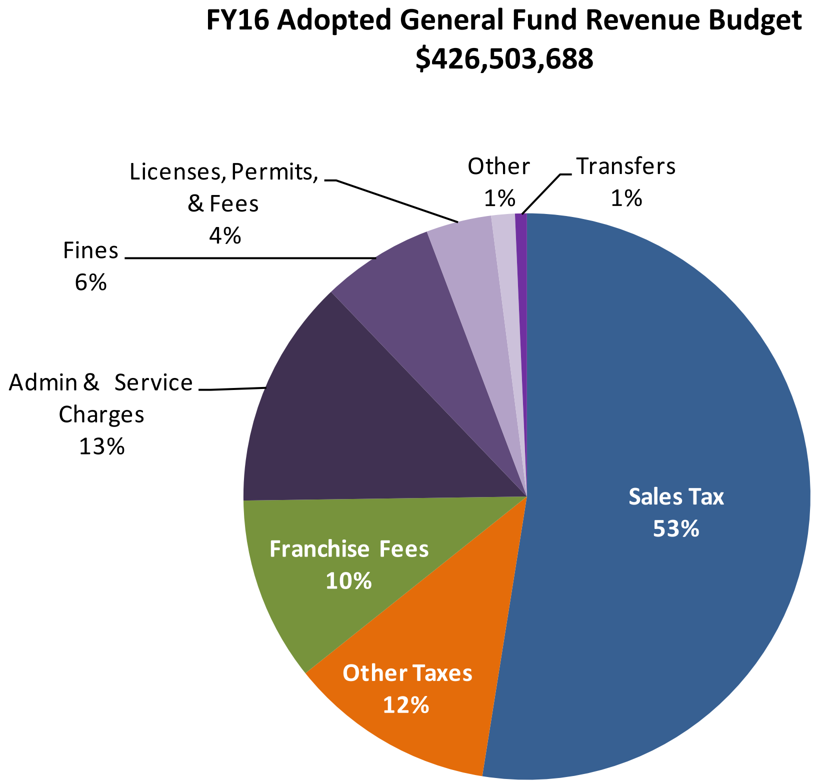
GENERAL FUND REVENUES

TRENDS AND FORECASTS

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. These sources are combined into similar categories and shown in the graph below.

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



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.

The City levies a total of 3.875% in sales tax. Combined with the state levy of 4.5%, the total state and municipal sales tax rate charged within corporate Oklahoma City limits is 8.375%. 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.

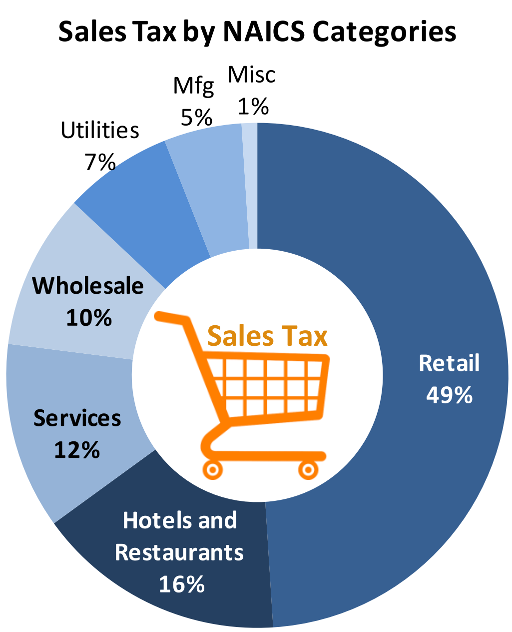
The city's 3.875% sales tax levy is divided between the various funds as follows:

- **2% goes to the General Fund.** Sales Tax is the largest single revenue source for the General Fund and the City.
- **1% goes to the MAPS 3 Sales Tax Fund.** This temporary tax is in effect through December 31, 2017, and is slated to fund capital improvements designed to boost economic development and improve the quality of life in Oklahoma City.
- **0.75% goes to the Public Safety Sales Tax Fund.** This tax is split evenly between Police and Fire and is a permanent dedicated sales tax.
- **0.125% goes to the Zoo Sales Tax Fund.** This is also a dedicated sales tax and 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 of the vendors who remit sales tax using the North American Industry Classification System (NAICS). NAICS classifies business establishments by type of activity to monitor and analyze related statistics. It is the system used by the Federal Government and allows for better levels of comparison by providing uniformity in data collection and reporting through the standardization of business establishments throughout the country.

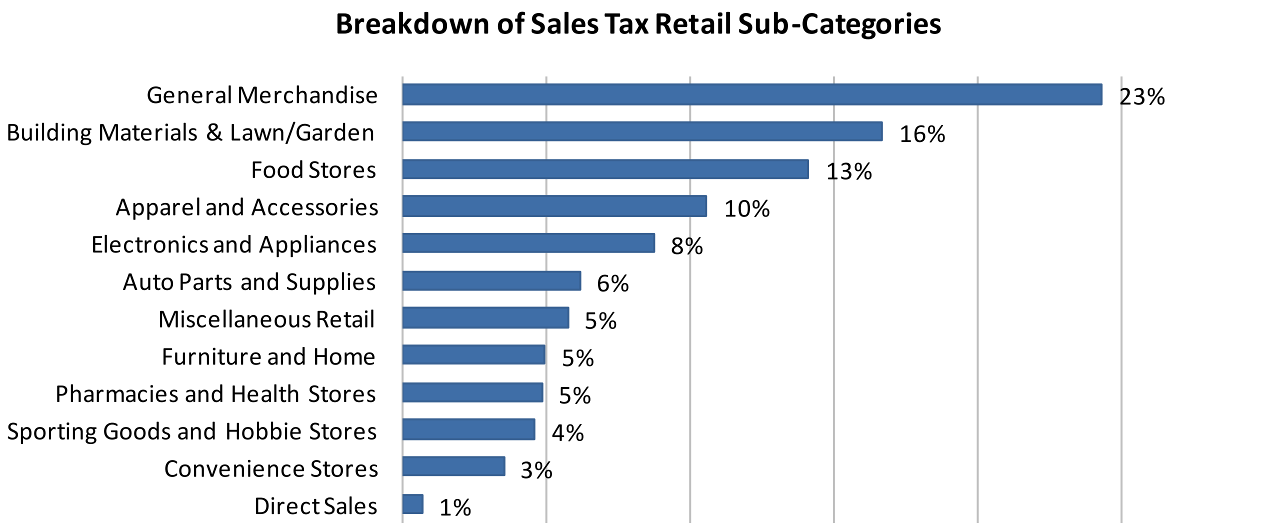
The chart below illustrates the most significant sectors of Oklahoma City's sales tax base for the first six months of FY16, ending with the sales tax check received in December 2015. As shown, the retail sector represents almost half of all taxable sales.



Because retail is such a large piece of sales tax, special attention is paid to the components within retail. The NAICS system provides further division within the major groups to allow a finer look at the data. The chart at the top of the next page shows the various subcategories within the retail sector for the first six months of FY16.

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 sales tax from the General Merchandise category 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 of the way Academy is classified overall.

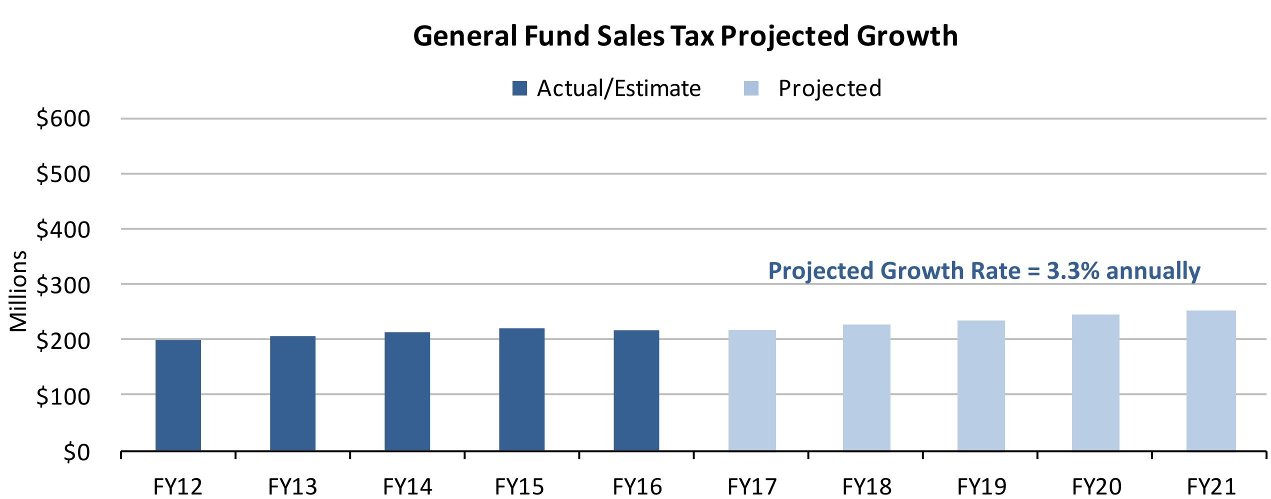
The mix of retail activity shifts gradually over time due to changes in retailing (such as the growth of the superstore), consumer tastes (such as eating out more often), and tax law changes (such as the change from taxing cigarettes through Sales Tax to excise taxes in 2004). Whatever the reasons for 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 and how much further will the Oklahoma economy be impacted by low oil prices? 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. Have we reached the balance between oil and gas and other industries or will the local economy decline even further as a result of low oil and gas prices? These questions make forecasting next year's sales tax a real challenge.

Part of the Economic Forecast developed by Dr. Russell Evans, Economist at Oklahoma City University, was an estimate of taxable retail sales. That estimate was used to inform the projection for sales tax growth for the remainder of FY16 and for FY17. Based on those forecasts and our long-term average, sales tax growth for FY16 is expected to decline 1.23% from FY15 and be 3.5% below the fiscal year target of 2.35% growth. In FY17, Sales Tax growth is projected to slow to 1.00%. The projected growth in FY17 is well below the 10-year and 20-year average of 3.8% which is what sales tax is projected to grow in the last four years of the forecast. Overall, sales tax, which is 53% of all General Fund revenues, is projected to grow at 3.3% annually over the five year period. This projection results in a $35.5 million increase over the forecast period, FY17 – FY21.



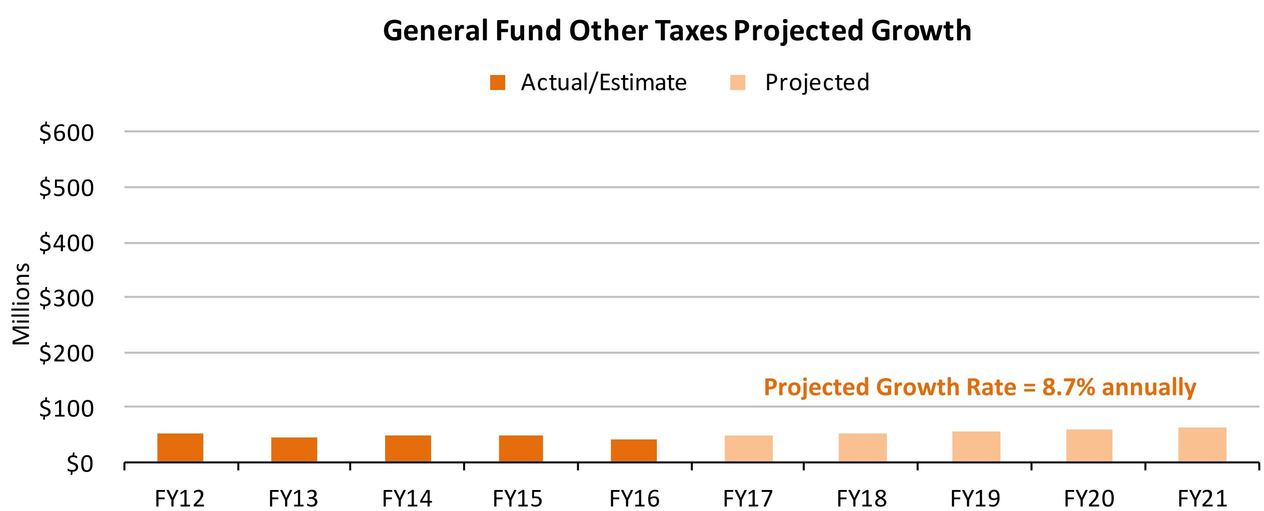
OTHER TAXES

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

Other Taxes Forecast

Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. Use Tax has grown at an average of over 7% per year over the last ten years with a range of growth from 20% in FY12 to a decline of 11.5% in FY13. In the current fiscal year, use tax had declined 41% through December, compared to the same period last year. The majority of the decline was attributed to a $6.6 million refund to a taxpayer who remitted taxes to Oklahoma City in error for several years; however, with the refund excluded use tax still declined 6.7%. In FY17, use tax is expected to return to FY15 levels of $37 million which represents growth of 29%. For the remainder of the five-year forecast, use tax is projected to grow at 7.0%, the 10-year growth rate in use tax.

The commercial vehicle tax and motor fuel tax are both allotted to the City from the state by formula. That formula was changed several years ago reducing the City's share of those taxes. The legislation that modified the City's share guaranteed that the city would not lose any revenue from the change. As a result of the change, the city's revenue from commercial vehicle tax and motor fuel tax has only seen slight increases since FY04. The other two taxes the City receives are alcohol tax and the excise tax on tobacco. Through FY12, the tobacco excise had shown growth primarily due to increased enforcement by the Oklahoma Tax Commission and better compliance with the law from vendors, however FY13 and FY14 saw average declines of 7%. The decline in excise tax on tobacco was attributed to fewer cigarette smokers as reported by the Centers for Disease Control and Prevention in their report "Tobacco Control State Highlights 2012." In FY15, tobacco tax increased 1% and was most likely due to an increase in smokers. For the remainder of the forecast period, the excise tax on tobacco is expected to remain flat. The alcohol tax is forecasted to grow at 4% per year, based on the 10- and 20-year trend. Overall, other taxes, which make up 12% of General Fund revenue, are projected to grow an average of 8.7% over the forecast period.



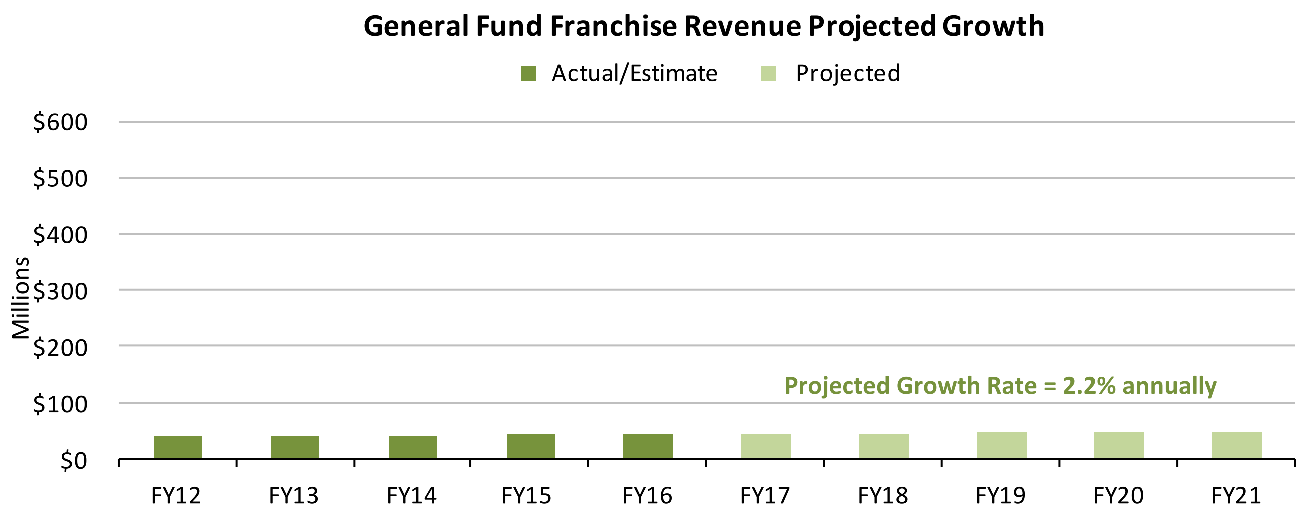
FRANCHISE REVENUES

Franchise revenues are derived, generally, from a levy on the gross receipts from utilities for the privilege of accessing public streets and rights-of-way and to reimburse the city for the cost of administering and enforcing the franchise. Four companies (Oklahoma Gas & Electric, Oklahoma Natural Gas, AT&T and Cox Cable) remit fees to the city that typically comprise about 85% of all franchise revenues from private corporations. In addition, the City's Water, Wastewater and Solid Waste Management enterprises operate as regulated monopolies using City rights-of-way. Accordingly, these entities also make payments to the General Fund and are considered franchise revenues for this analysis.

Revenue from the energy-based companies is significantly impacted by weather and the price of fuel. Calendar year 2012 was the hottest on record in the U.S., so FY12 and FY13 saw very high franchise fee payments from OG&E from higher than normal electricity use as consumers tried to keep cool. In FY14, franchise fees declined from the previous two years as weather returned to normal ranges. Also impacting the energy-related utilities is the price of fuel. The current low price for natural gas not only impacts franchise revenue from Oklahoma Natural Gas (ONG), but also from Oklahoma Gas and Electric (OG&E) as the cost of power generation is reduced. Significant rate increases have been proposed by ONG and OG&E, however they have not been approved by the Corporation Commission. As such, the impact of those rate increases is not included in this forecast. Competition in the video/cable business has played a role in fluctuations seen in revenues from AT&T and Cox Communications. As landlines become less common, we continue to see revenue from that sector decrease. Franchise revenues from Water, Wastewater and Solid Waste grow steadily, increasing as population and rates increase. Franchise revenue from Water is very dependent on the weather during the summer and can experience more fluctuation. The new water conservation program may limit growth in future water franchise revenue as consumers are encouraged to reduce water consumption.

Franchise Revenue Forecast

Franchise revenue is expected to finish FY16 with 1.19% growth due to increases in customer bases and rates. In FY17, growth of 0.49% is projected as low oil and gas prices continue to impact the local economy. For the remaining four years of the forecast, Franchise revenue as a category, is projected to average growth of 2.2% per year based on long-term averages.



OTHER GENERAL FUND REVENUES

Many other sources contribute to the General Fund revenue base. These sources are summarized as follows:

Licenses, Permits & Fees - Building permits and various business and occupational licenses are among the sources contained in this revenue category. These charges are designed to recover costs of the enforcement and administration of city codes and account for 3% of the General Fund revenue budget.

Services & Administrative Charges - Animal shelter, engineering, planning, recreation, and police fees are some of the sources included in this category, in addition to payments from the Public Safety Sales Tax Fund as reimbursements for police and fire wage adjustments. Parking meter fees, as well as inter-agency charges for services such as accounting and legal, are included. These charges contribute 13% of the General Fund revenue budget.

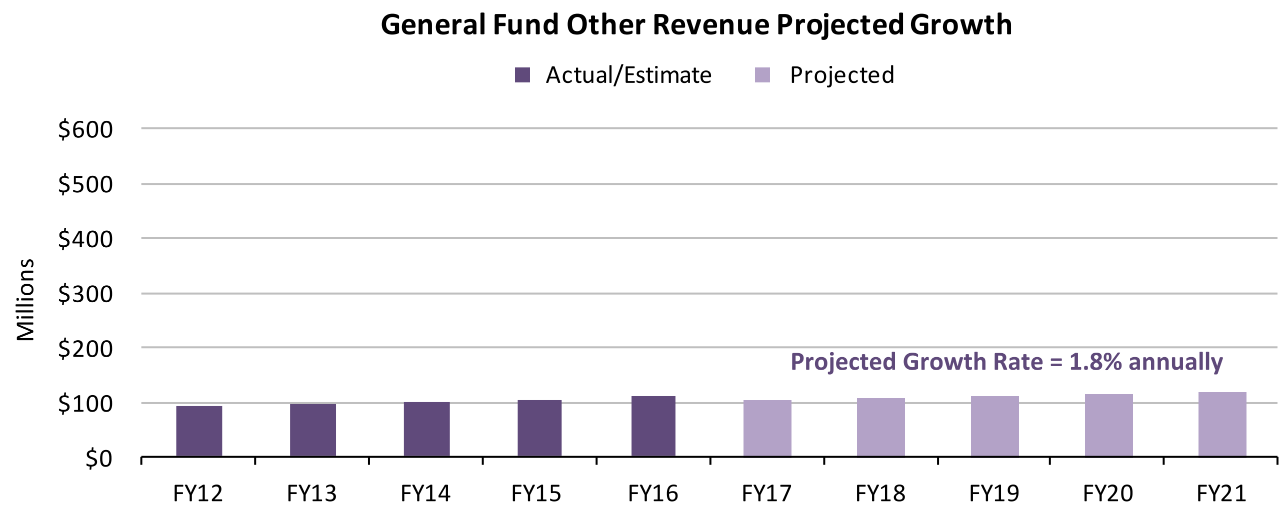
Fines - This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed by the Court of Record and Criminal Court, and revenue from court costs. This revenue category makes up 6% of the General Fund revenue budget but can vary from year to year based on the number and types of citations filed with the Court.

Other Revenues - This category includes a variety of miscellaneous sources such as interest, revenues from the sale of city property, and rental income and accounts for only 1% of the General Fund revenue budget.

Interfund Transfers - This revenue source includes several small transfers from various city funds. This revenue category makes up 1% of the total General Fund revenue budget.

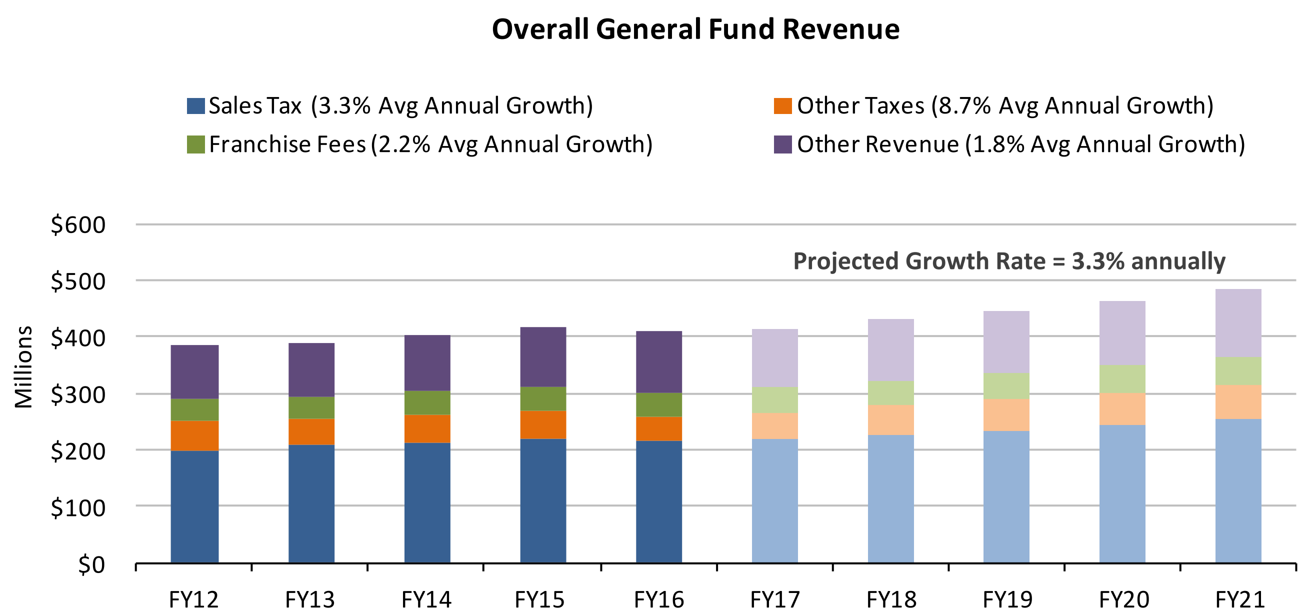
Other General Fund Revenues Forecast

Overall, this group of other revenues makes up 25% of General Fund revenue and is expected to grow 1.8% per year during the forecast period.



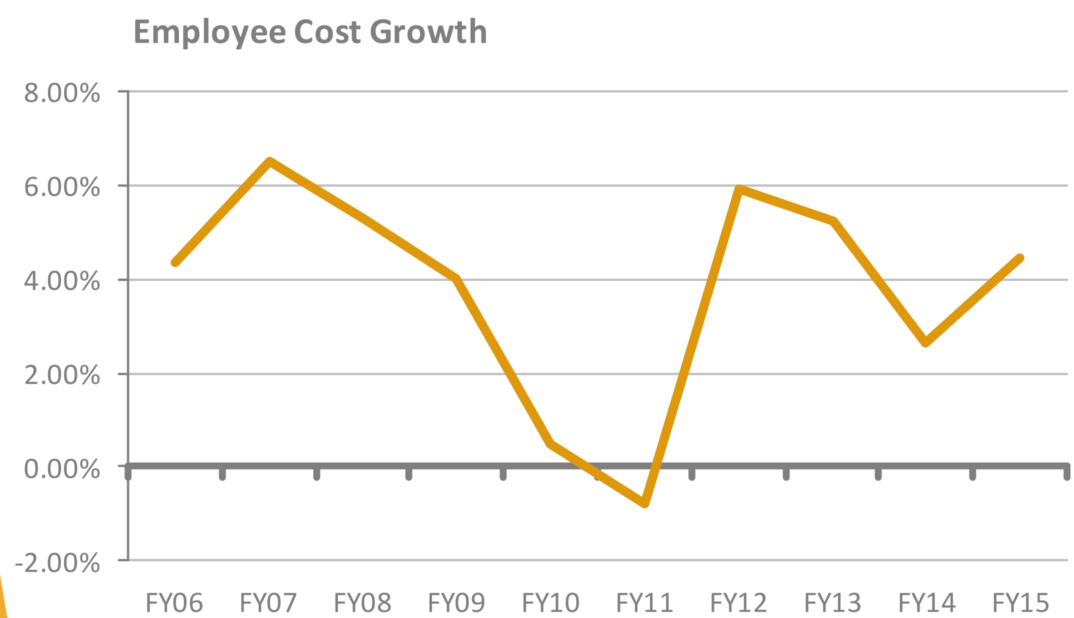
OVERALL REVENUE FORECAST

When all of the categories are combined General Fund revenues are expected to grow at about 3.3% per year over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated recurring revenue of $409 million in the current fiscal year to $482.5 million in FY21.



FIVE-YEAR FORECAST
FY 2017-2021

It is anticipated that general operating costs will continue to grow at a rate higher than inflation due primarily to salary and benefit growth.



SECTION 7

GENERAL FUND EXPENDITURES

TRENDS AND FORECASTS

EXPENDITURE OVERVIEW

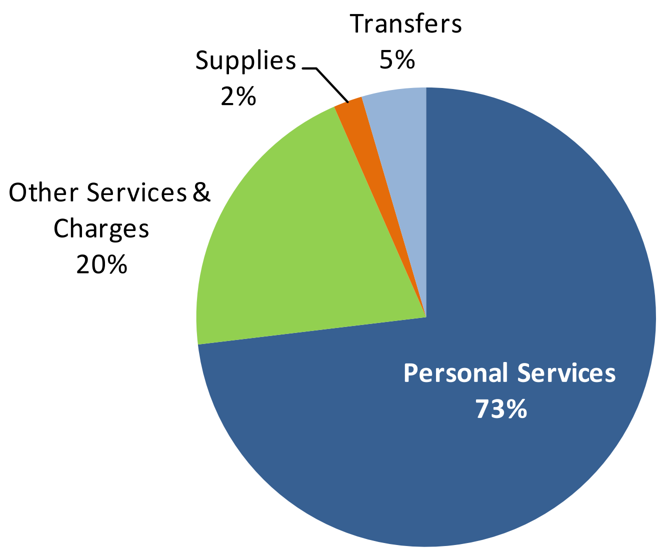
City expenditures encompass an enormous variety of goods and services for items ranging from the mundane to the unusual - from employee salaries to sophisticated computer programs to dog food. While it would be impossible to forecast every possible area of expenditure growth over the next five years, this report attempts to project the most likely growth patterns in expenses.

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

	FY17	FY18	FY19	FY20	FY21
Fire Staffing for New Station			$901,001	$1,738,773	$1,795,283
Increased Police Staffing		$1,525,718	$3,142,980	$4,855,905	$6,668,776
Radio System Annual Replacement		$2,000,000	$2,000,000	$2,000,000	$2,000,000
MAPS 3 Park (Net Cost)			$2,162,137	$2,227,001	$2,228,947
MAPS 3 Modern Streetcar Phase I		$1,500,000	$3,000,000	$3,090,000	$3,182,700
Bus Replacement		$2,000,000	$2,000,000	$2,000,000	$2,000,000
Convention Center Operations				$500,000	$500,000
Total	**$0**	**$7,025,718**	**$13,206,118**	**$16,411,679**	**$18,375,706**

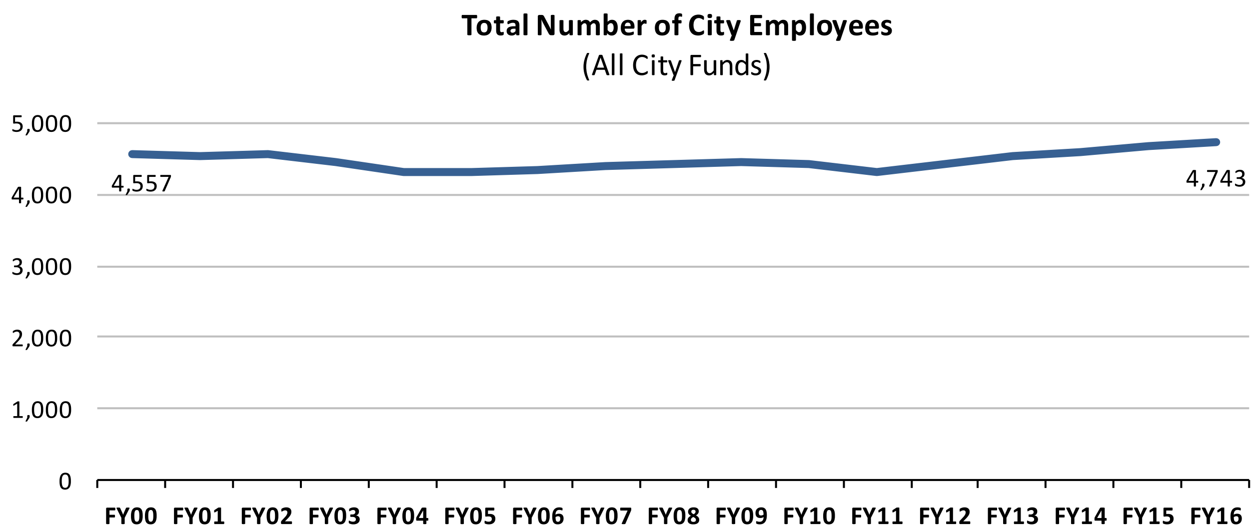
The City budgets according to five general categories: personal services, other services, supplies, capital, and transfers. These categories also provide a convenient way to divide City expenditures to more closely examine the trends that are occurring and for making projections.

FY16 Adopted General Fund Expenditure Budget
$426,503,688



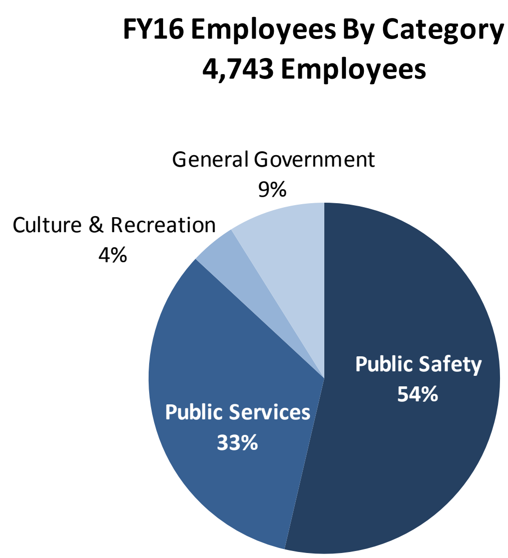
PERSONAL SERVICES

At 73% of the FY16 General Fund budget, personal services are the primary driver in expenditure growth in the General Fund. Personal services include salaries, insurance, retirement contributions, and training. Obviously, the two main drivers in the growth of personal services are the number of employees and the pay and benefits of those employees. In FY16 the City added 71 positions to for a total of 4,743 positions.



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

These totals under-represent the full level of effort in these areas due to two primary factors; the first is that these figures only count city employees and do not include employees of the city's trusts. The Oklahoma City Zoological Trust has about 152 full-time employees and the Oklahoma City Public Property Authority has about 69 full-time employees working at the city's golf courses. These employees would count in the culture and recreation category.



There are also 204 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.

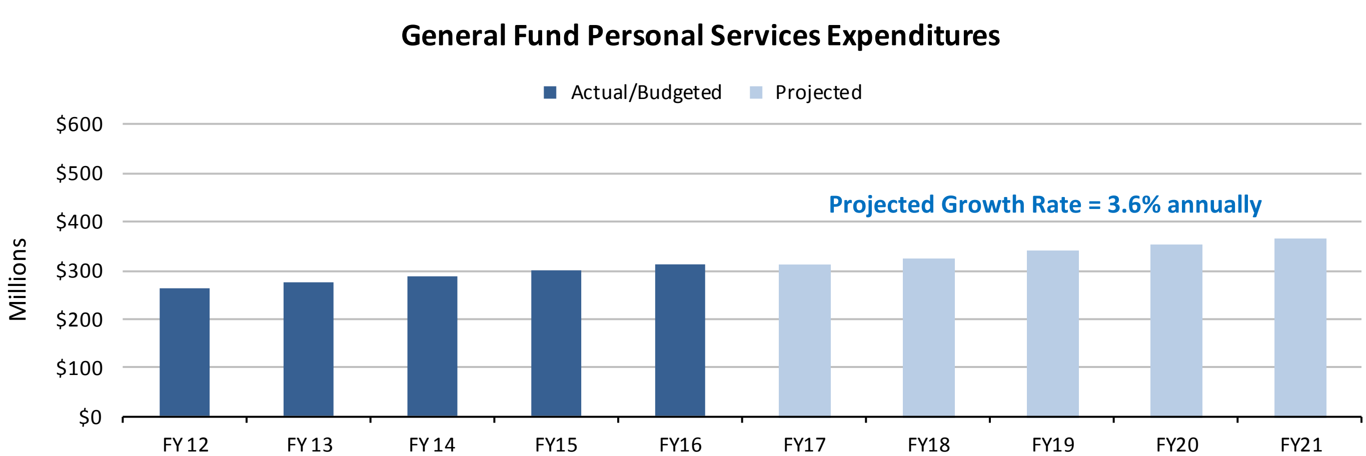
Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY16 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,487 general positions. The Fraternal Order of Police (FOP) represents the 1,169 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 977 uniformed fire positions. The remaining 1,110 positions are unrepresented management and executive positions that receive pay plan changes through city management recommendation and Council approval.

When a group's pay plan is increased, all members of the group receive an increase. In addition to the pay plan increase, employees are also eligible for an increase in pay due to merit or longevity depending on the group to which they belong. Employees in AFSCME or management would not receive a merit pay increase if their performance were rated as unsatisfactory during their annual performance review or if they were at the top step of their pay range. FOP and IAFF employees would not receive a merit or longevity increase if they were at the top step in their pay range and have been working for the City for more than 20 years.

Personal Services Projections

Looking back at how employee costs for the City (excluding Trusts) have grown in recent years helps inform the projections for the future. From FY05 through FY09 the cost per employee increased an average of 4.8% per year, which was a time when the city was gradually adding positions and granting pay plan increases each year. During FY10 and FY11 the average cost per position decreased by 0.2% per year as the City was cutting positions, holding positions vacant, and did not give pay plan increases. In FY12 through FY15 positions were added and pay plans increased, resulting in the cost per employee growing an average of 4.6% per year. The average growth rate from FY05 through FY15 was 3.8%. For the forecast we also used an average growth rate of 3.8% for budgeted position costs which is a culmination of projections for various types of position related expenses. For example, salaries and wages were projected at 3.25%, health insurance at 7%, and other position costs such as parking and mileage at 3%. When totaled, the average projection was 3.8%. However, the rate of growth is much lower in FY17 due to revenue limitations on growth. In the subsequent years additional positions increase the rate of growth.

Staffing for one new fire station is added to the projections in FY19. In addition, the desire for additional police officers is addressed by adding 20 positions per year in FY18 through FY21. With these changes factored in, personal services are projected to grow an average of 3.6% per year.



OTHER SERVICES

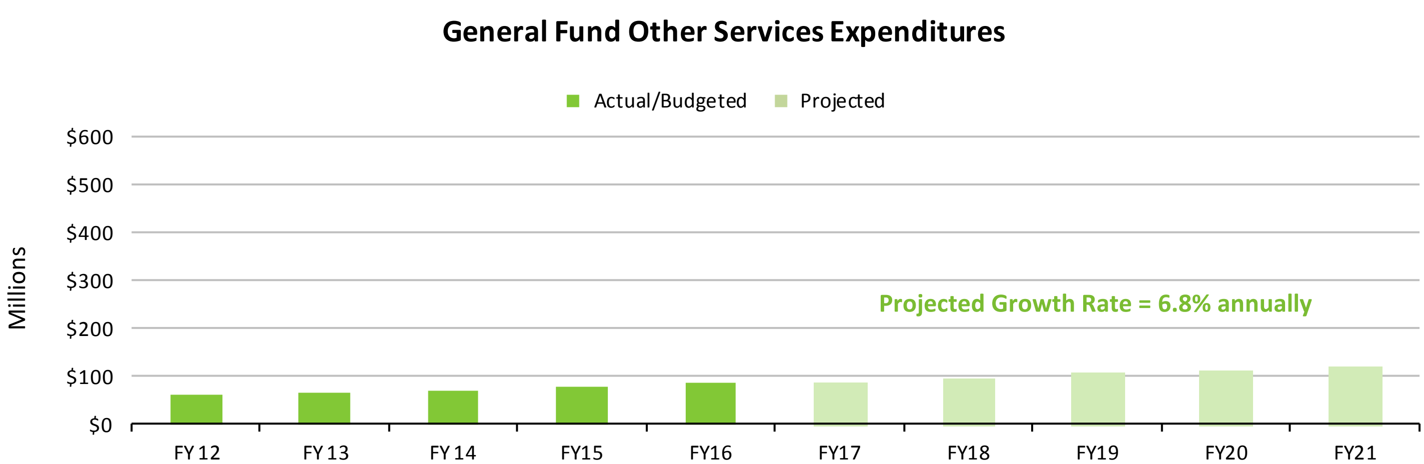
Other services include expenditures for service contracts, utilities, printing, vehicle maintenance and professional services. The FY16 budget for other services totals $86.7 million or 20% of all General Fund expenditures. Other services also include chargebacks which are charges between internal city agencies for vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance. In FY16, chargebacks account for $33.3 million of other services. The payment to the Central Oklahoma Transportation and Parking Authority (COTPA) is now classified as an other service, and accounts for $16.8 million of the other services and charges total in the FY16 budget.

Other Services Expenditure Projections

Most of the costs for other services during the forecast period are expected to grow at an average of 6.0% per year, the average annual growth rate over the last five years. There are a few exceptions to the growth rate in this category. First is the operating support provided to COTPA for transportation services which are projected to rise at 10.0% per year based on the history for the past five years and will fund incremental changes to personnel and other operating costs. In addition to the incremental growth projected in support for COTPA, *budget of $2 million per year has been added for bus replacement beginning in FY18 and an additional $1.5 million of budget will be needed in FY18 as Phase I of the modern streetcar is expected to be operational for the public for a portion of the year, increasing to $3 million annually in FY19 for a full year of operation.*

The second exception to projected growth rates are chargebacks for things such as workers compensation costs, property liability insurance, and technology which are expected to grow at the lower rate of 5% per year based on a five year history.

And last are additions for operation of two new MAPS3 projects, the downtown park and the convention center. An additional $2.2 million in budget is projected to be needed in FY19 as the north portion of the park is completed. When the south portion of the park is opened the budget needs could increase to $2.7 million based on programming and maintenance requirements. The new convention center is projected to need an addition of $500,000 annually to the budget beginning in FY20. Overall, the other services category is expected to grow an average of 6.8% per year.



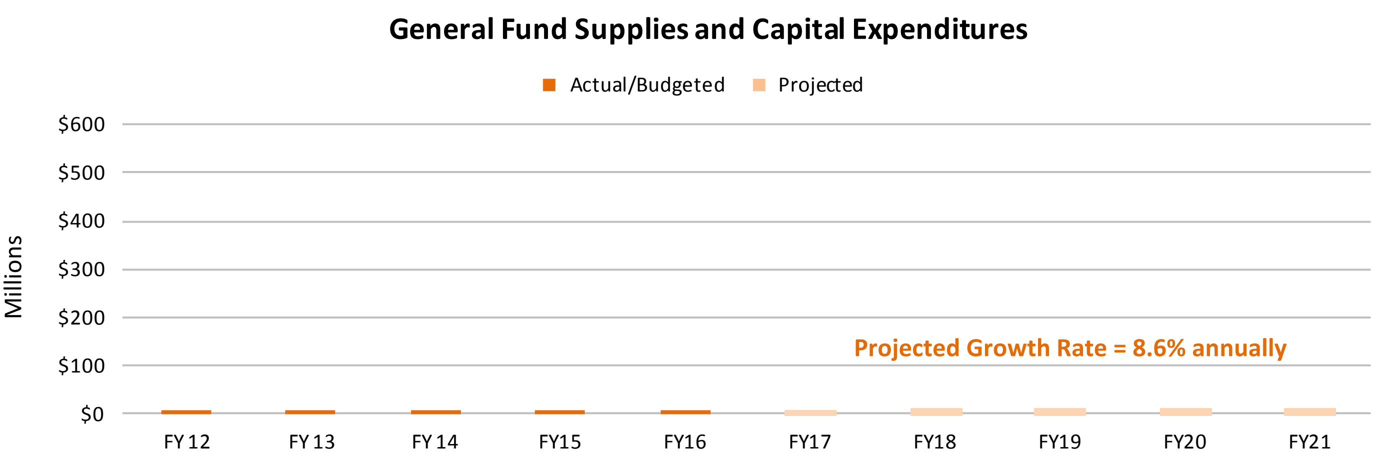
SUPPLIES AND CAPITAL

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. Expenditures falling in the supplies category include purchases of materials needed to affect repairs and routine maintenance on city equipment and facilities, 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. The average growth for the past five years has been 6% annually. *Beginning in FY18, additional budget of $2 million per year is projected to be needed for radio system replacement.*

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. Capital expenditures are budgeted at less than $0.02 million in FY16. Most funding for the Capital Improvement Program is included as transfer expenditure to other City funds.

Supplies and Capital Expenditure Projections

Supply and capital costs are expected to grow at 8.6% per year over the five-year forecast period.



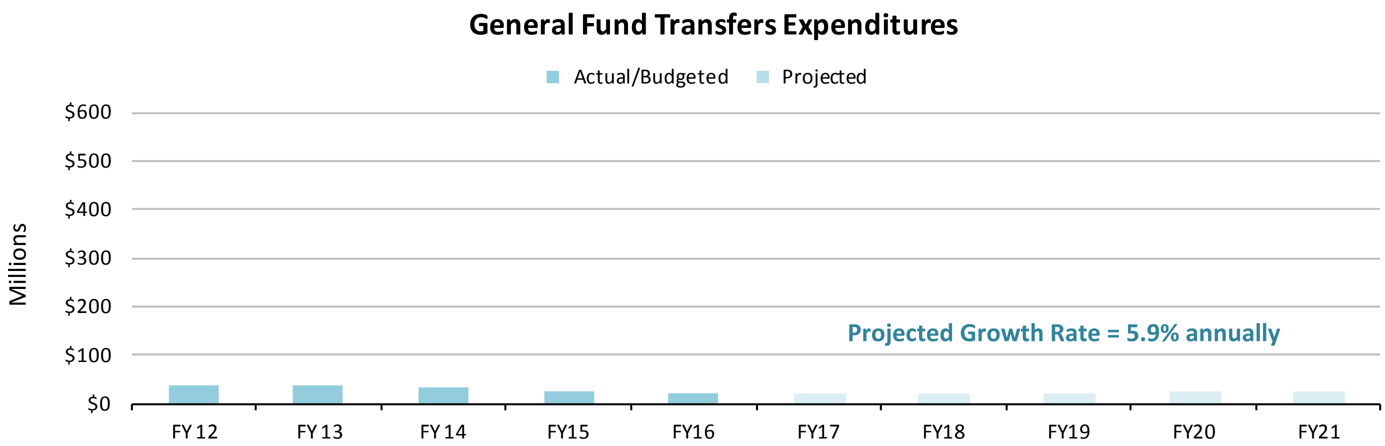
TRANSFERS

General Fund transfer costs reflect the General Fund's direct financial support of a number of services whose own dedicated funding sources are insufficient to meet City objectives. In total, the adopted FY16 General Fund budget includes $19.2 million in transfers. The two largest transfers in this category include $5.2 million for transfer to the Capital Improvement Fund and $6.7 million for transfer to OCPPA for operation of the Chesapeake Arena and Cox Center.

The chart on the following page shows average transfers of $36 million in FY12, FY13 and FY1. In those years, City Council amended the budget each year to transfer fund balance of $8 million to CIP for street and other capital repairs. Also included in the amendments were transfers for a data center for the Information Technology Department and capital repairs and upgrades at the Oklahoma City National Memorial and Museum.

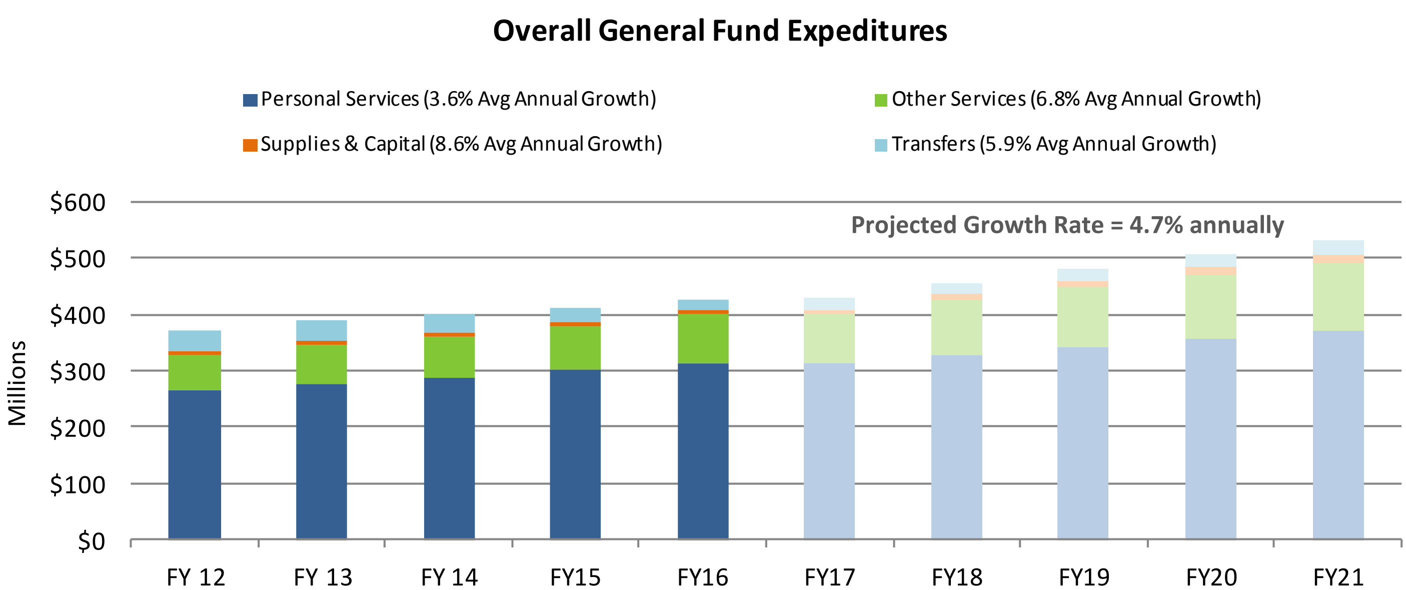
Transfers Expenditure Projections

Transfers are expected to increase an average of 5.9% annually over the five-year forecast period.



OVERALL EXPENDITURE FORECAST

When all of the categories are combined, the net effect is annual growth of about 4.5% in General Fund expenditures over the next five years. Although FY17 is expected to grow less than 1%, the growth rate takes off in FY18 through FY21 as MAPS3 operating costs come online and public safety needs increase with the addition of a new fire station, a desire for more police officers, and a new radio system. To put that in dollar terms, expenditures are expected to grow from a FY16 budget of $426 million to $535 million in FY21. The chart below provides a visual representation of that growth.



FIVE-YEAR FORECAST

FY 2017-2021

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

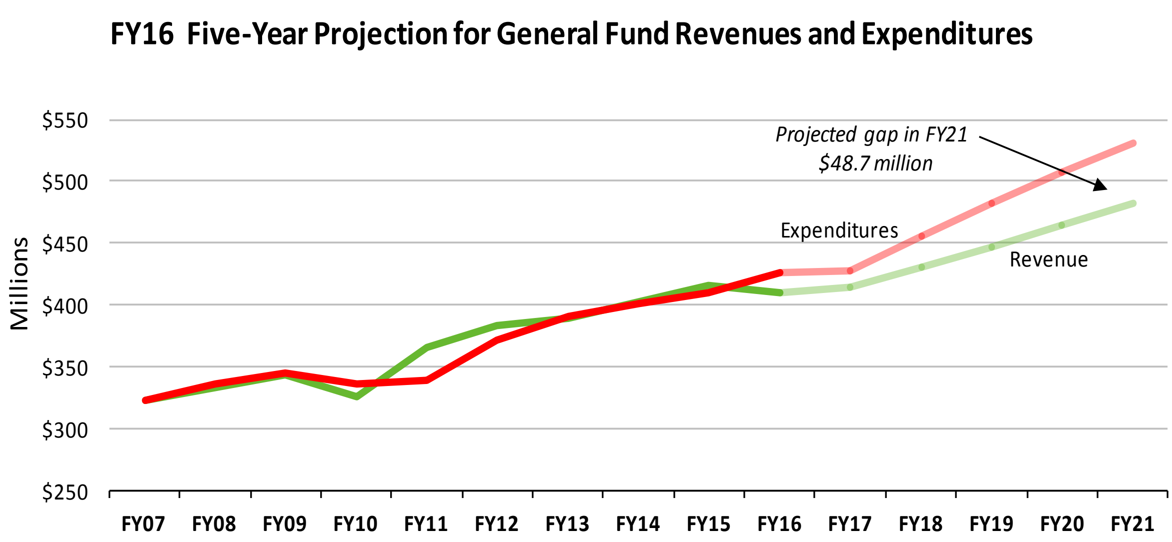
SECTION 8
GENERAL FUND REVENUE/EXPENDITURE GAP

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 before growth began to slow again. In FY16 General Fund revenue is expected to finish 1.23% below FY15 with revenue of $409.6 million, which is $16.9 million below the budget projection of $426.5 million or 2.35% growth.

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.

PROJECTED REVENUE/EXPENDITURE GAP

Through FY21, revenues are expected to average 3.3% growth annually. Expenditures, on the other hand, are expected to grow at an average rate of 4.5% 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 $48.7 million in FY21.



The General Fund Revenues and Expenditures chart on the previous page shows nine years of actual figures (FY07 – FY15) and projections for FY16 – FY21. In every past year that the expenditure line is above revenue line, the city used reserves (fund balance) to make up the difference. In the years where revenues were above expenditures, the city has added to reserves.

CLOSING THE GAP

State law mandates a balanced budget so every year the city must close the gap. For FY17, there is a projected gap and departments are being asked to make cuts. In future years, it appears departments will continue to need to make reductions annually to keep the budget balanced. 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 will be key to maintaining financial balance. The most effective means to achieve a balance between controlling personnel costs while maintaining competitive salary and benefit packages for employees in the future will be to limit salary and benefit growth to within the approximate growth rates of city revenues. The city continues to work to find ways to maintain personal service cost growth within the revenues available and the demand for increased services. Improved efficiency in operations is also an avenue for controlling expenditure growth. Tight budgets have necessitated that departments continually look for ways to do more with less, thereby driving many efficiency gains, but it has also resulted in some reductions in service levels.

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

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

SUMMARY

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

FIVE-YEAR
FORECAST
FY 2017-2021

FIVE-YEAR FORECAST

FY 2017-2021

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