The City of Oklahoma City

FIVE YEAR FORECAST

Fiscal Year

2024-2028

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EXECUTIVE SUMMARY

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An economic and operational outlook for the city.

EXECUTIVE SUMMARY

The Five-Year forecast provides an evaluation of the city's current financial condition and is designed to provide accurate, timely, and objective information about the City's financial condition as well as a view of the economic and operational outlook for the city.

Overall, the City is in a strong position in Fiscal Year 2023 (FY23) on the back of historically high sales tax collections. Although growth is expected to diminish in the latter half of the fiscal year, General Fund revenue is expected to exceed projections and end the year at 7.7% growth over FY22 levels.

ECONOMIC OUTLOOK

The City has worked with Dr. Russell Evans, Partner and Chief Economist at the Thorberg Collectorate, to develop the economic outlook for the coming year. Dr. Evans' expectation for 2023 is at best a slow economic growth, with a real possibility of a mild recession surfacing at some point. Although the labor market and consumer spending have remained strong over recent months, both are beginning to show signs of weakness as unemployment has gradually risen and household net worth and savings have fallen. Although inflation has begun to moderate, household spending is unlikely to keep pace and the record high revenue growth the City has experienced in recent years from high sales and use tax collections can be expected to significantly diminish in the year ahead.

FINANCIAL EVALUATION TOOLS

The *Financial Trend Monitoring System (FTMS)* reviews how key indicators have performed over the last five to ten years and considers the trend of these indicators to assess Oklahoma City's current financial condition. This system provides the city with a more comprehensive evaluation of financial condition rather than focusing on individual indicators, such as fund balance. The overall results of the FTMS indicator ratings were 73% positive, 14% neutral and 14% negative which was an improvement from last year where 59% indicators trended positive. Key indicators that trended positive included revenue accuracy, hotel tax revenues, and fringe benefits.

Many financial issues are beyond the scope of the budget process and require other solutions. Departments identified *50 financial issues* the City will be facing over the next five years. Identifying significant issues provides an early warning system and staff can develop plans that recommend possible next steps to be taken.

GENERAL FUND OUTLOOK

As a result of continued strength in sales and use tax receipts, General Fund operating revenue grew 12.4% through December 2022. General Fund operating revenue collections were $15.8 million above year-to-date budget projections with sales and use tax collections driving nearly all of that increase. Expenses were $13.9 million below budget with Personal Services expenditures $12.3 million and Other Services $6.1 million under budget.

General Fund revenue is projected to increase 2.4% in FY24, under the assumption that sales and use tax growth will level off and inflationary pressure will recede somewhat. Changes made to the FY24 base budget include increases for pay plans and retirement funding, the City's classification and compensation study, the implementation of Bus Rapid Transit, the subsidy to operate and maintain the Riversport facility, electricity and natural gas costs, and increases for providing risk management services to departments. Over the next five years, General Fund revenues are expected to average 3.4% growth annually while expenditures are projected to average 5.3% growth annually. Inequity between these two growth rates means that there is a projected General Fund gap of $38.2 million in FY28. New revenue sources, an expanded sales tax base, and continued growth in the local economy may be needed to fund operations at a level desired by residents. Staff will continue to work with the City Manager to present Council with a proposed FY24 budget that balances operating needs with available resources.

SECTION 2

INTRODUCTION

PURPOSE

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

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

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

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

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

- **ACCOUNTABILITY.** The forecast serves as a snapshot of the City government's current and projected financial well-being as it relates to residents and the business community by providing an overview of the City's ability to meet community needs over time. This document also demonstrates the City's financial planning process and strengthens local government's accountability to the community.

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

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

STRUCTURE OF THE REPORT

Following the Executive Summary and Introduction Sections, the Financial Trends information begins in Section Three. This section is designed to give city leaders and residents a simple tool for evaluating the City's fiscal 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 (ICMA), this method identifies the trends in various financial and environmental areas and rates them as positive, neutral, or negative. A *"score"* can then be determined by showing how many of the trends fall into each category.

Following the Financial Trends, Dr. Russell Evans, Partner and Chief Economist at the Thorberg Collectorate, developed Section Four, Economic Outlook. The City has contracted with Dr. Evans to provide the most rigorous forecast available. The information from the economic forecast helps inform the estimation of sales tax revenues in the City's budget and this forecast.

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

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

Regular financial evaluations help ensure stability.

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

FIVE-YEAR FORECAST

FISCAL YEAR 2024 - 2028

SECTION 3

FINANCIAL TRENDS

INTRODUCTION

Local governments, even those with historically strong financial track records, face challenges in financial management that are unique from their corporate counterparts. One main reason for this difference is that while there is much agreement on factors to consider when evaluating the financial condition of a business, there is not a similar general consensus on how to evaluate the condition of a local government.[1] Even with the abundance of information provided in the City's budget document and the Annual Comprehensive Financial Report (ACFR), key data between two governments can diverge 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) into 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 City's 16th year using the FTMS.

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

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

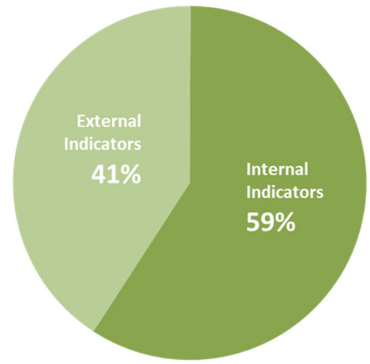
WHAT IS FINANCIAL CONDITION?

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 30 or 60 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 in the future years in which they are due.
- **Service Level Solvency** – A government's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community.[1]

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

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



FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators. Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government to potential problems, and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation, 22 measures were used. The omitted measures were either not applicable to Oklahoma City, or the data is currently unavailable for the indicator. The group of indicators chosen should help Oklahoma City:

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

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

TREND PERIOD

A period of five years was analyzed for the trend analysis. In most instances, the most recent five years (2018-2022) were examined. In some instances where complete data was unavailable, a monthly average is projected forward to complete the year. The years used for each indicator are 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.

OVERALL RESULTS

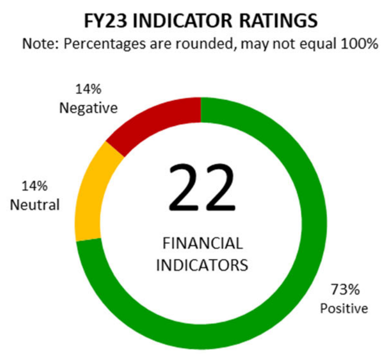
Each indicator has been assigned a *"trend status"* to indicate the direction the indicator is moving. The definitions for the trend status are:

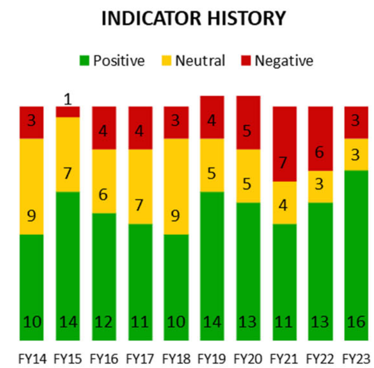
- A **positive** trend is favorable towards the City's financial condition, and/or the indicator is meeting City policy or performance measures set by management.
- A **neutral** trend implies there is no immediate concern. These indicators are watched carefully for change to indicate early signs of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

As the following chart shows, this year's FTMS has **16 positive** indicators, **3 neutral** indicators, and **3 negative** indicators. The City remains in a favorable financial position. A description of each measure, the sources of data used, and a discussion of the measure rating are included in this section beginning on page 12.

THE NEXT STEP

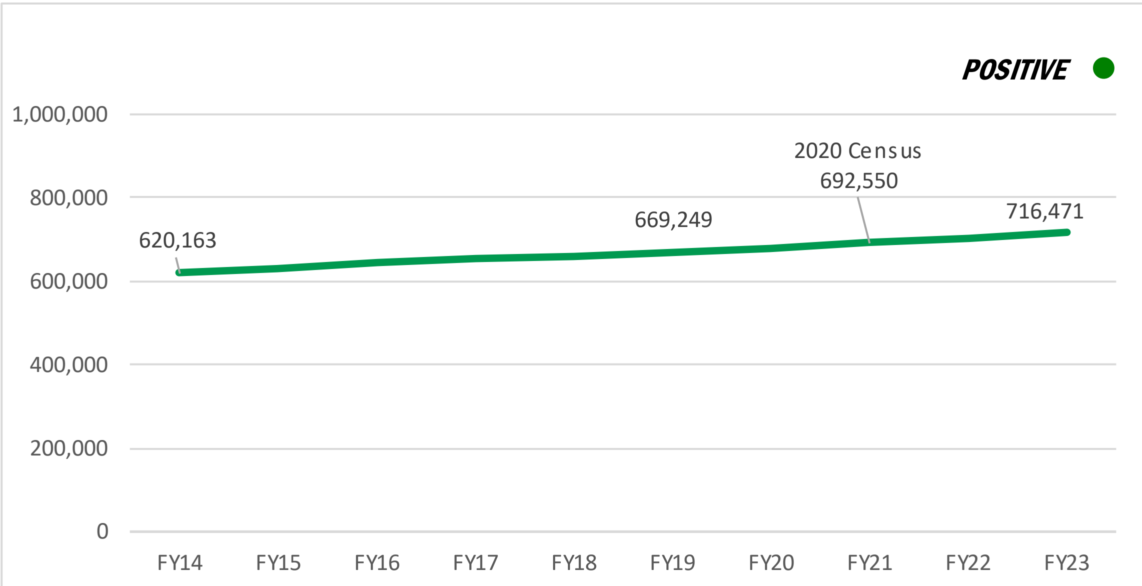
The FTMS system is not designed to project the future financial situation of the City; however, the system will provide a benchmark to track the City's recovery from the local economic downtowns experienced in FY16-FY17 and impact of the COVID-19 pandemic beginning in FY20. Management will continue to monitor financial trends and develop strategies to keep the City moving in a positive financial direction.





FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	EXTERNAL INDICATORS
●	●	●	●	●	●	●	●	●	●	Population
●	●	◆	◆	▲	●	●	●	●	●	Average Weekly Earnings
●	●	●	●	●	●	●	●	●	●	Labor Force
▲	●	●	●	●	▲	▲	●	●	●	Crime Rate
▲	▲	●	●	●	●	●	●	●	●	Property Value
▲	▲	▲	▲	▲	◆	◆	◆	◆	◆	Office Vacancy Rate
●	●	●	●	●	●	●	◆	◆	▲	Airport Activity
N/A	N/A	N/A	N/A	N/A	●	●	◆	◆	▲	Hotel Room Nights Sold
▲	●	◆	◆	▲	●	◆	◆	◆	◆	Active Drilling Rigs
										INTERNAL INDICATORS
●	●	●	●	●	●	●	●	●	●	Revenue Per Capita
▲	▲	▲	◆	◆	▲	◆	◆	◆	●	Revenue Accuracy
●	●	●	▲	◆	●	▲	●	●	●	Sales & Use Tax Revenue
▲	▲	▲	▲	▲	▲	▲	▲	▲	◆	Sales & Use Tax as % of GF
●	●	●	●	▲	●	●	◆	◆	●	Hotel Tax Revenue
▲	◆	◆	▲	▲	◆	◆	◆	●	●	Grant Revenues
▲	▲	▲	▲	▲	▲	▲	●	●	●	Employees/1,000 Residents
▲	▲	▲	▲	▲	◆	◆	▲	▲	●	Fringe Benefits
●	●	●	●	●	●	●	▲	●	●	Pension Funding Ratio
▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	Long-Term Debt
●	●	●	●	●	●	●	●	●	●	Fund Balance
●	●	●	●	●	●	●	●	●	●	Liquidity
▲	●	●	●	●	●	●	●	●	●	Enterprise Working Capital

POPULATION



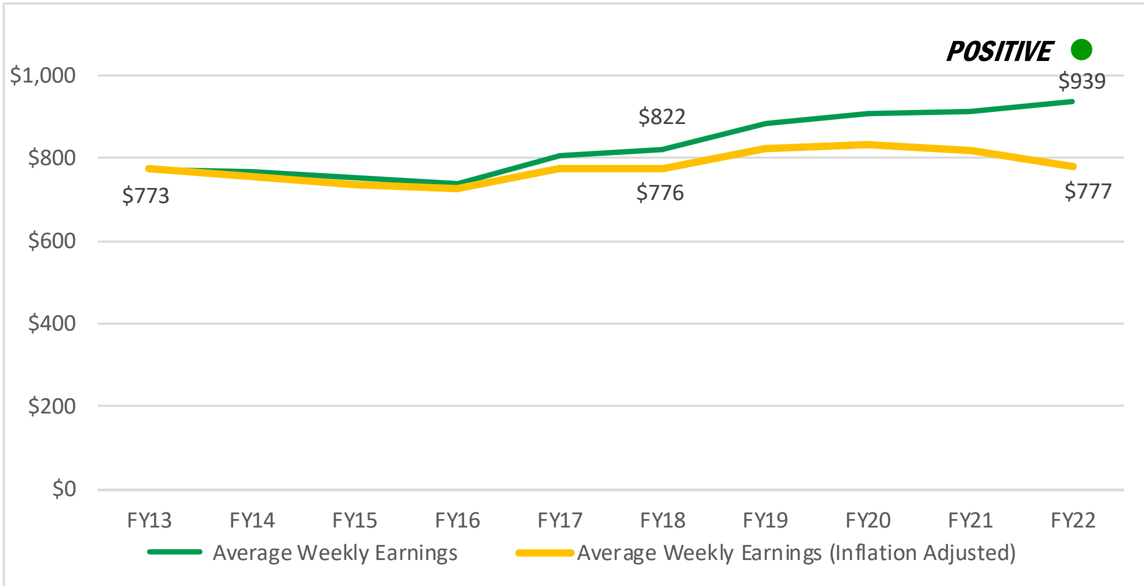
Formula: Population Data from the City of Oklahoma City Planning Department

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

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

Why is This Important to Oklahoma City?
Oklahoma City has been able to increase its revenue base without immediate, unplanned pressures for capital outlay and increases in service levels. Future monitoring of the population as compared to other financial indicators will help determine the cost of serving new residents in relation to the revenues they contribute through taxes. Oklahoma City has realized consistent growth in population since FY14, with an estimated 716,471 residents in FY23.[2] This is an average annual growth rate of 1.6% over both the last five years and the last 10 years. Since the growth has been relatively steady, the trend was rated positive.

AVERAGE WEEKLY EARNINGS



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

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

High inflation has impacted Average Weekly Earnings which grew 0.2% after adjusting for inflation over the past five years.

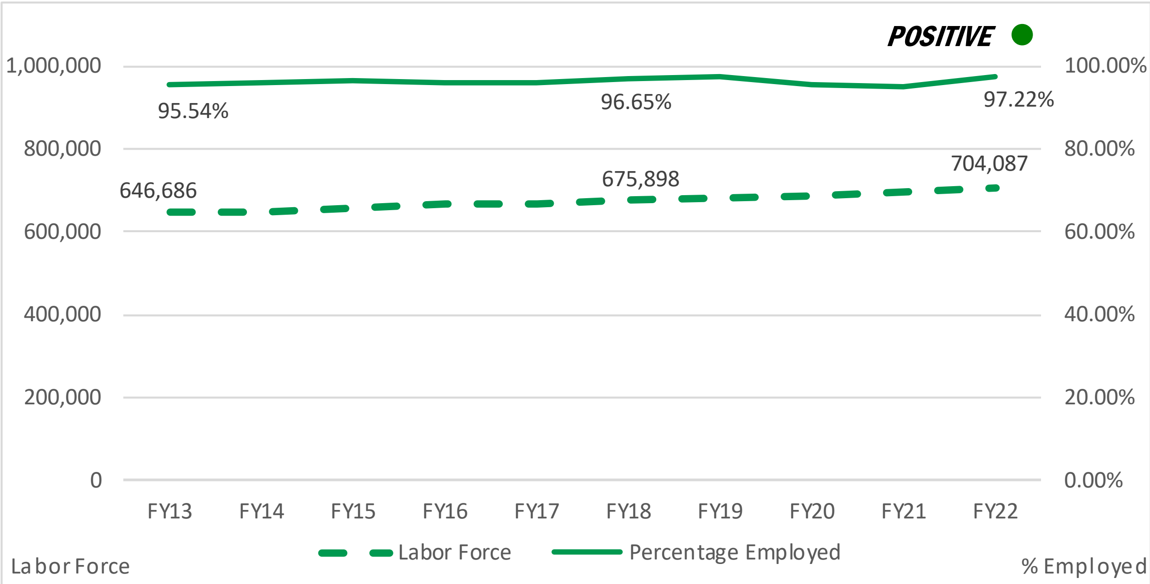
Why is This Important to Oklahoma City?

Attracting and retaining employers with jobs with higher-than-average earnings is one way the City can convey its commitment to economic development and positively impact residents' income levels and quality of life. Higher weekly earnings mean residents in the OKC-MSA, on average, can purchase more goods and services than they once were. Average Weekly Earnings (AWE) declined for three consecutive years (FY14, FY15, and FY16) when the local economy took a downturn. Strong growth returned in FY17 through to the present, but after adjusting for inflation, it remained essentially flat compared to the previous five years. After adjusting for inflation, the indicator posted growth of 0.2% over five years ago and maintained a positive rating this year on account of particularly strong growth in nominal dollars.

Current Year Activity

The Average Weekly Earnings for early FY23 year-to-date data shows growth from the chart above. In current dollars, the AWE was $1,015 through December 2022.

LABOR FORCE



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

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

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

While the range for full employment may vary by expert, generally, when the unemployment rate is higher, residents struggle to find employment; when the unemployment rate is lower, the opposite occurs, and employers may struggle to fill employment vacancies. In the years preceding the COVID-19 pandemic, the percentage of the labor force of the Oklahoma City Metropolitan Statistical Area (MSA) employed was stable at around 96%. During the height of the pandemic in FY20 and FY21, the rate dropped to an average of 95.1%, meaning 4.9% were unemployed and employment in the local area was still full. In FY22, the average increased suddenly to 97.2%, bringing the five-year average back to pre-pandemic levels at 96.2%.

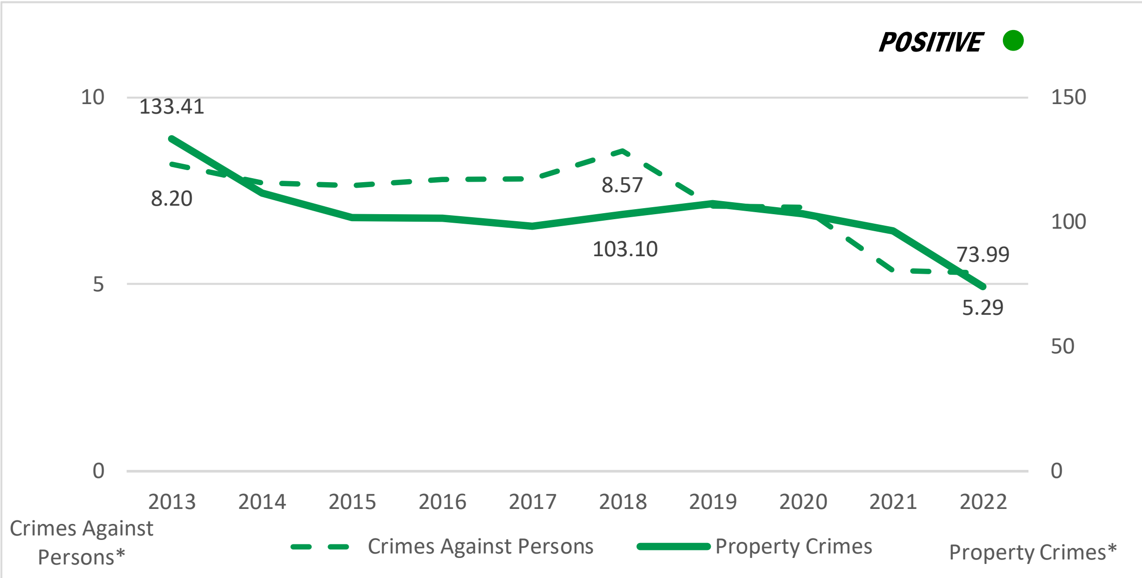
The percentage employed should be put into context with the size of the labor force. When the two data sets are used together, it indicates the labor force is growing, and job seekers can find employment. In the last five years, the labor force grew by 4.2%, and employment grew by 4.8%. Annual growth in the labor force and a return to pre-pandemic employment rates resulted in a positive rating for this indicator.

Current Year
The percentage employed decreased 0.3% through the first five months of FY23, increasing the average annual unemployment rate to 3.1%.

In FY22, total crime incidents* decreased for the third consecutive year, down 22% from five years ago.

* Not adjusted for population growth.

CRIME RATE



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

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 for 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.

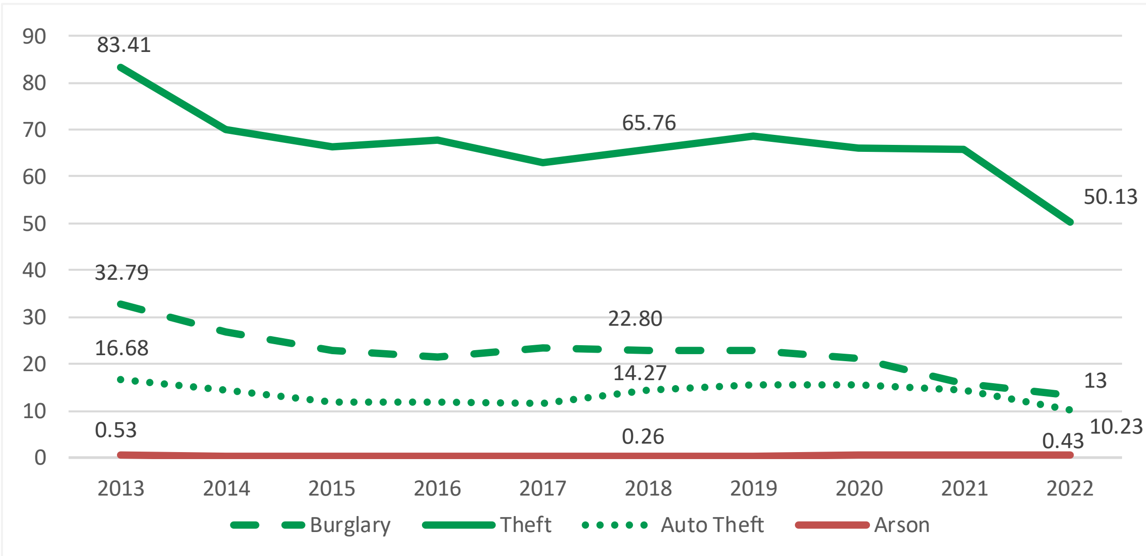
Why is This Important to Oklahoma City?

With around one-third of the General Fund budget dedicated to Police and Courts, monitoring crime trends and considering it in forecasts of future expenditures is financially prudent. The number of property crimes per 1,000 households has decreased significantly over the last five years from 103.1 crimes in calendar year 2018 to an estimated 74.0 in 2022. The number of crimes against persons per 1,000 people also decreased substantially from 8.6 per 1,000 in 2018 to an estimated 5.3 in 2022. Because both crime categories have decreased over the five-year period, 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.

*Data for 2022 is estimated using actual data from January – October. November through December were an average of the first 10 months of 2022.

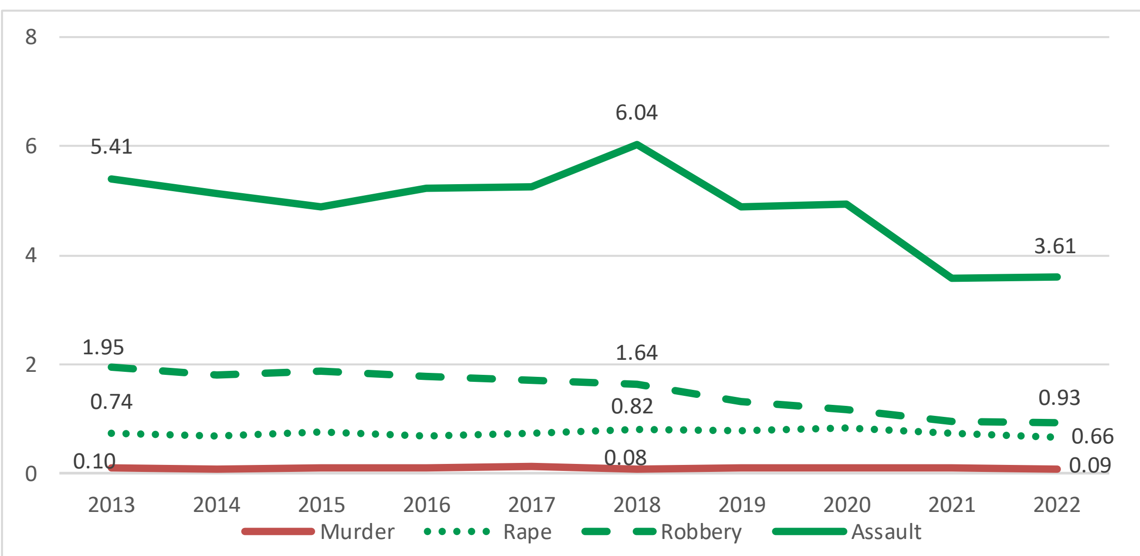
Property Crimes

The chart below is a sub-set of data behind the total number of property crimes in the graph on the preceding page. Over the last five years, property crimes per 1,000 households decreased 28.2%. Theft, auto-theft, and burglary all decreased significantly over the last five years while arson increased 62.6%.

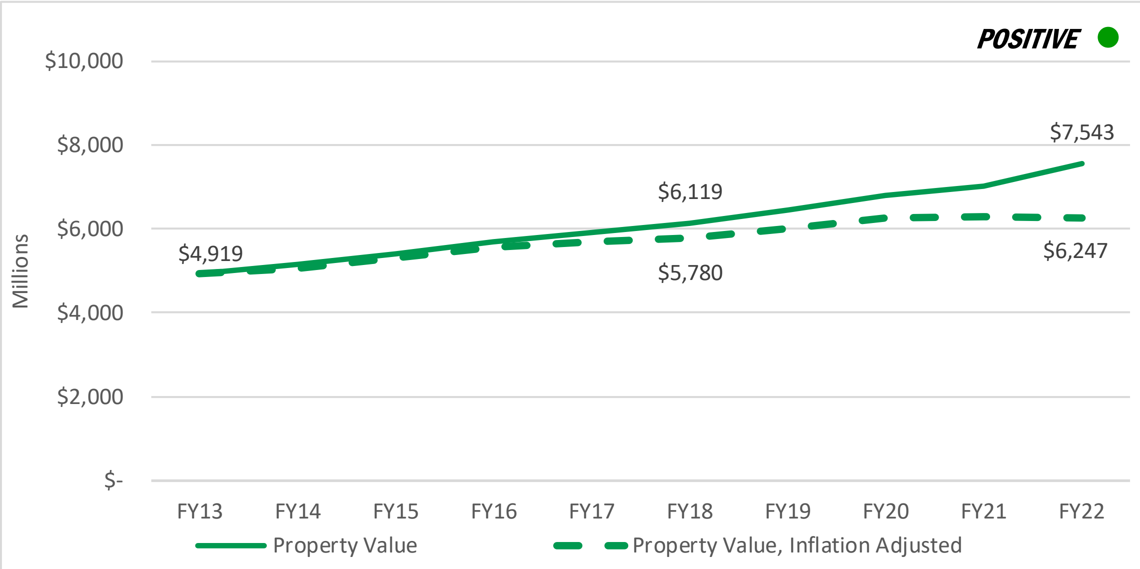


Person Crimes

The chart below is a sub-set of data behind the total number of person crimes per 1,000 residents in the chart on the preceding page. Over the last five years, person crimes per 1,000 residents decreased 38.3%. Rape, robbery and assault all decreased substantially over the last five years, although the murder rate increased by 15.0%



PROPERTY VALUE



Formula: Assessed Value / CPI

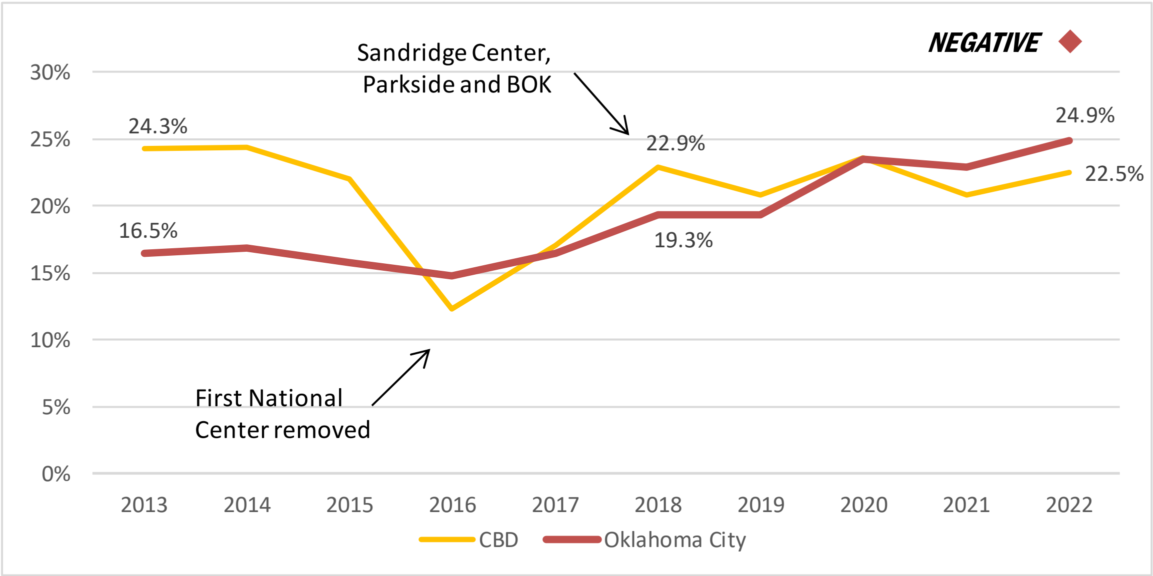
Assessed Property Value has increased 27% over 10 years

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 government. A decline in property value could affect the credit rating and borrowing ability of a local government.

Why is This Important to Oklahoma City?
While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City's finances, namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City's debt capacity allowing more capital projects. Oklahoma City's Net Assessed Valuation (NAV) growth rate increased year-over-year in FY22 from 2.9% to 7.7%. Expansion in the NAV growth rate will positively impact the amount of general obligation bonds that can be sold in 2023.

However, in FY22 Oklahoma City's inflation adjusted assessed property value shrank for the first time in 10 years by 0.5%, due to the high rate of inflation in recent months. Still, over the past 10 years, the inflation adjusted value has increased 27.0%, underscoring strong long-term growth. Staff will continue to monitor this recent downward trend and incorporate it into plans for future capital financing. Based on the progressively upward trend of nominal property values and an increase in the inflation adjusted figure over the past five years, this has been rated as a positive indicator.

OFFICE VACANCY RATE



Formula: Vacancy Rates from Price Edwards Oklahoma City Office Market Summary[3]

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, 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 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 increase to an unhealthy rate, it could have a negative impact on property values and incomes. The pandemic reversed the previous positive trends causing negative absorption in both districts. By midyear 2022, CBD vacancy rates increased 1.7% year-over-year, and were essentially flat over a five-year period. The Greater OKC area vacancy rate grew similarly at 2.0% over 2021. The Price Edwards and Company Oklahoma City 2022 Mid-Year Office Market Summary stated:

"It is clear that with over 4.2 million vacant SF, the city has an oversupply of office space. Landlords are still faced with the challenge of filling vacant units, and many will continue to offer concessions in free rent or increased improvement allowances to attract tenants. They will do so at a time when costs to make improvements are at a historical high, all while the cost of funds continues to rise."[3]

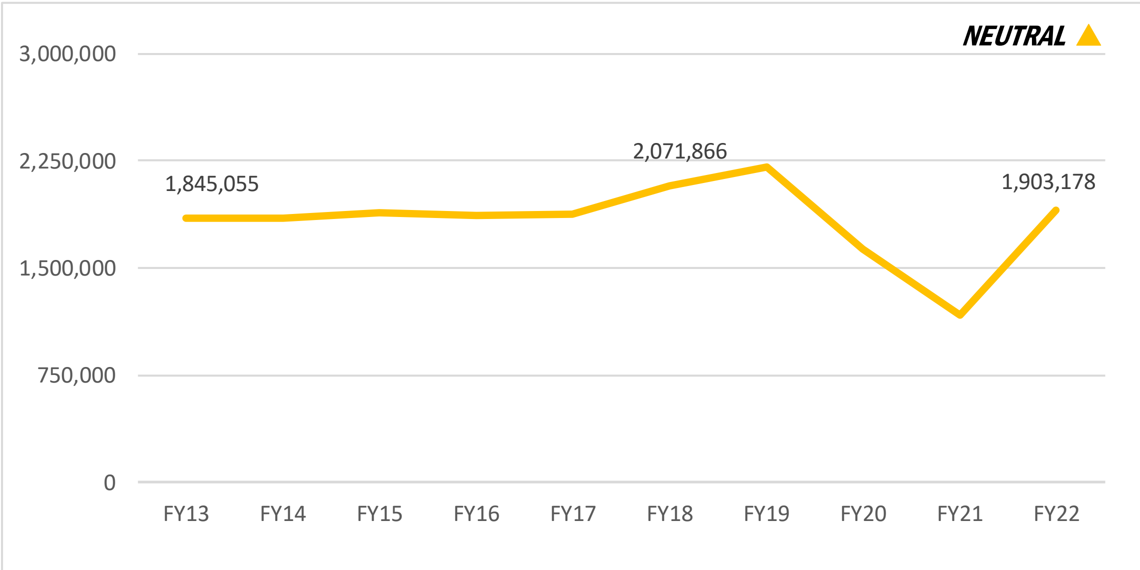
The significantly higher vacancy rate over the five-year period for Oklahoma City and flat vacancy rates for the CBD over the same period resulted in a negative rating for this indicator.

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

In FY22, airport activity at Will Rogers World Airport grew 63% over the previous year.

This is the strongest yearly growth rate since at least 2006.

WILL ROGERS WORLD AIRPORT ACTIVITY



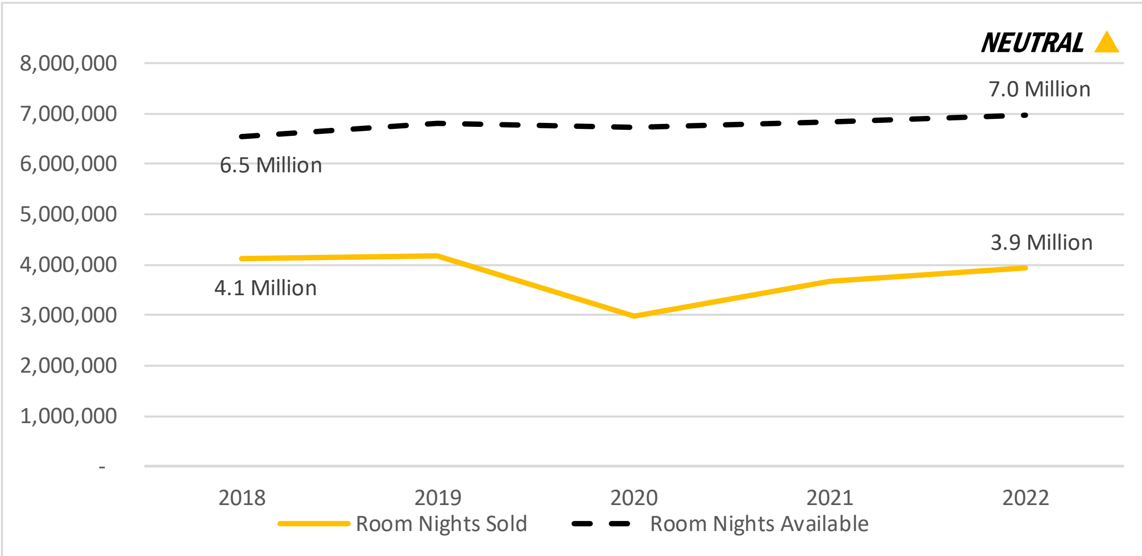
Formula: Annual Number of Passengers Boarding at Will Rogers World Airport (WRWA)

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

Why Is This Important to Oklahoma City?
Each of the activities mentioned above can directly affect revenue yields through tax receipts associated with tourism and commerce. Increasing the number of passengers using Oklahoma City's commercial airports is good for the City whether the travel is for business or pleasure. Since FY13, the number of nonstop destinations and airports served at Will Rogers World Airport has increased, stimulating growth in the number of travelers. Passenger activity was at a record high in FY19 with 2.2 million boarding passengers until the pandemic struck in FY20, crippling the airline industry. The number of boarding passengers dropped to its lowest point in at least 17 years in FY21 at 1.2 million, a 47% decrease from the FY19 high. In FY22, airport activity surged 62.6% over the FY21 low, the largest yearly increase in at least 17 years, nearly reversing the losses suffered from the pandemic. Although the number of boarding passengers has still decreased 8.1% from five years ago, the rating for this indicator improved to neutral given that the year-over-year trend is particularly strong.

Current Year Passenger Activity
The number of boarding passengers increased 7.0% during the first half of FY23. The rate of growth in the current year has slowed considerably from the surge in passengers during the first half of FY22, but activity has nearly returned to pre-pandemic levels.

HOTEL ROOM NIGHTS SOLD



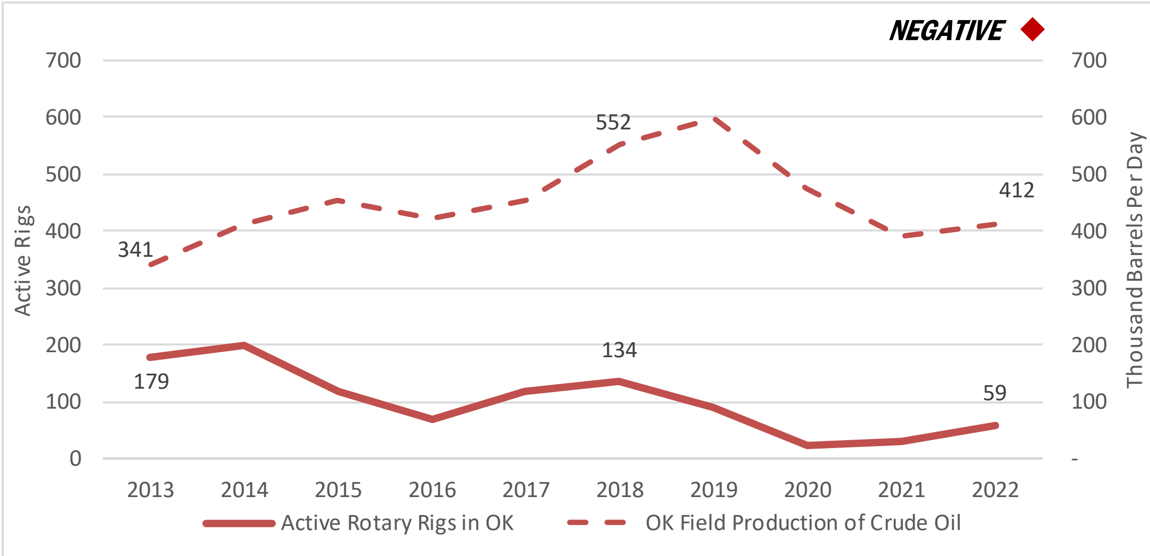
Formula: Number of room nights sold according to Smith Travel Research

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

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

Before the COVID-19 pandemic struck, occupancy had remained steady, averaging 62% annually over the previous five-years. During the height of the pandemic in 2020 and 2021, occupancy rates averaged 49% and 3.3 million room nights sold annually. Signs of recovery were evident in 2022, with 7.2% year-over year growth in room nights and 56% occupancy. This positive progress, coupled with the fact that 4.6% less rooms were sold in 2022 compared to five years prior led to an improved rating of neutral for this indicator.

ACTIVE DRILLING RIGS



Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated[4] Field production of crude oil from Energy Information Administration (EIA)

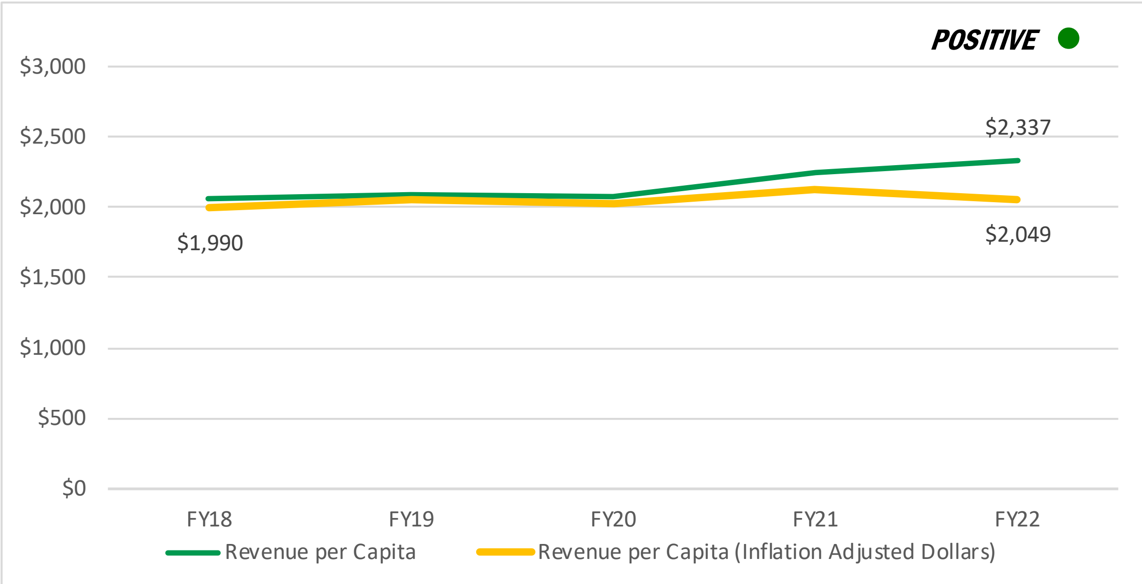
Why are Active Drilling Wells an Indicator for Financial Performance?

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

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. Drilling activity hit a peak within the last 10 years in 2014 and the active rig count has generally declined since then. A secondary peak was achieved in 2018 when the rig count increased to 134 and corresponded with a two-year period from 2018-2019 when the field production of crude oil in Oklahoma averaged 575,000 barrels per day. Meanwhile, oil prices had continued to decline from $93 per barrel in 2014 to an average of $53 from 2015-2021. Oil prices began to rise sharply towards the end of 2021, and the number of active rigs rose 102% in 2022 off a 10 year low the previous year. Despite this recent growth, the number of active rigs has declined 56% over five years and 67% over ten years and this indicator remains negatively rated.

REVENUE PER CAPITA



Formula: Operating Revenues (Inflation Adjusted Dollars) / Population

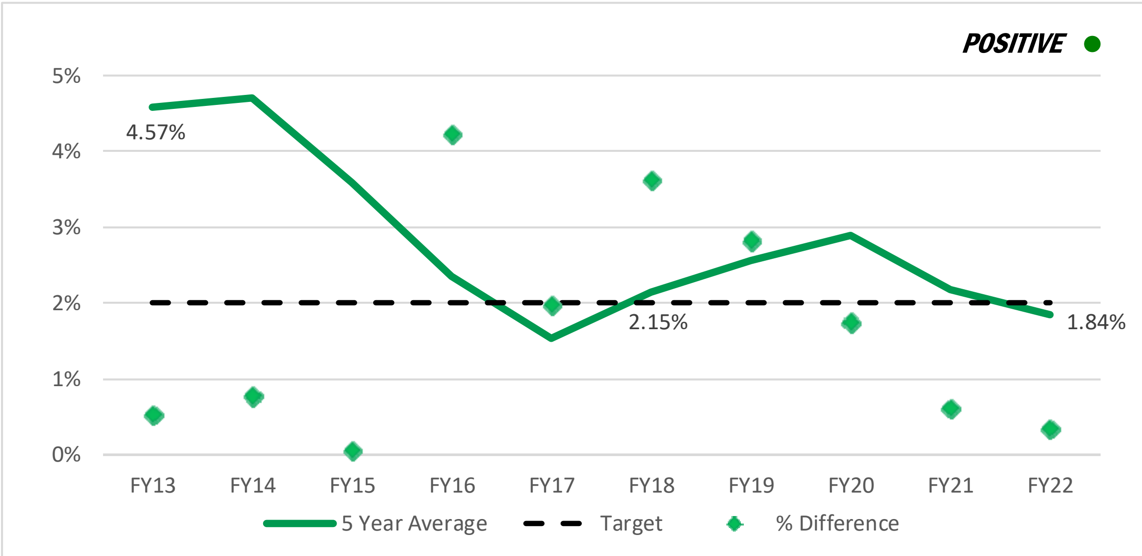
What is Revenue Per Capita?

Per capita revenue shows changes in operating revenues relative to changes in population size. As population increases, revenues and the need for services can be expected to increase proportionately. Therefore, the level of per capita revenues should remain at least constant in real terms. When per capita revenues decrease, a local government needs to either find new revenue sources or reduce expenditures to maintain existing service levels. This assumes that the cost of service is directly related to population size.[5]

Why is This Important to Oklahoma City?

This issue is delicate since revenue per capita reflects the financial impact of the City's taxes and fees on residents but is also necessary to provide the level and quality of services that residents desire. Over the five-year period, revenue per capita increased 2.9% after adjusting for inflation, but grew 13.0% in nominal dollars, indicating that recent high inflation has been depressing the real value of revenue growth. In FY22, real revenue per capita declined 3.7% below FY21, while increasing 4.3% in nominal dollars. This gap will persist in a high inflation environment. Despite this worrying trend, the indicator maintained a positive rating due to growth in both trends over the past five years. The City will continue to monitor existing revenue sources and look for new revenue possibilities to ensure revenue keeps up with population and inflation growth in the coming years.

REVENUE ACCURACY



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

Determining Revenue Accuracy

This indicator examines the difference between revenue projections and revenues received in the General Fund during the fiscal year. Significant continued variances in revenue from projected amounts, whether the discrepancy is an overage or shortage, can be a 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.[6] The worst-case scenario for this indicator would be increasing revenue shortfalls.

Why is This Important to Oklahoma City?

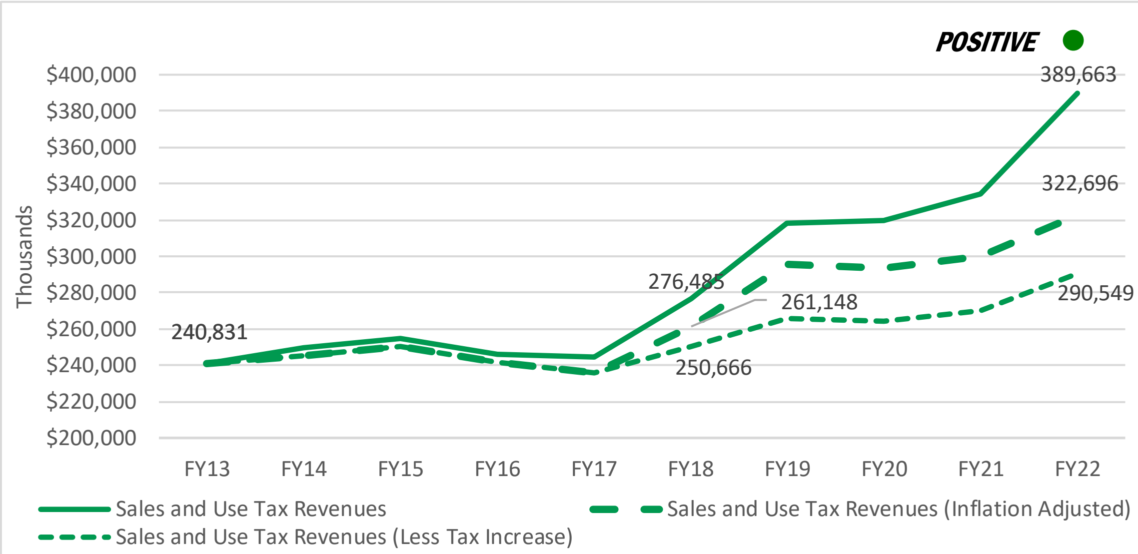
Keeping this variance minimal means services have not been unnecessarily reduced because of a perceived shortage that did not occur; or that new services were not established that could not be maintained because revenues failed to meet projections. The City maintains a target of keeping projections within 2% of actuals and the indicator is measured on a five-year average

In FY13-FY15, revenue collections were within 2% of projections and the five-year average decreased from a high of 4.7% in FY14 to a low of 1.5% in FY17. A downturn in the local economy due to the energy sector contraction resulted in FY16 collections falling 4.3% below projections and 2.0% below projections in FY17. In FY18 and FY19 collections exceeded projections by 3.6% and 2.8%, respectively, as the local economy returned to growth and tax collections from online sales began. The City managed to navigate the volatility in revenue resulting from the COVID-19 pandemic and the subsequent recovery in tax collections well, with an average variance of 0.9% in projections from FY20-FY22. The average absolute variance over the last five years was 1.84%, which was within the City's 2% target, resulting in an improved positive rating for this indicator.

Current Year Activity

In the current fiscal year, General Fund revenue was 5.5% above projections through December, which is outside the target range of 2%.

SALES AND USE TAX REVENUE



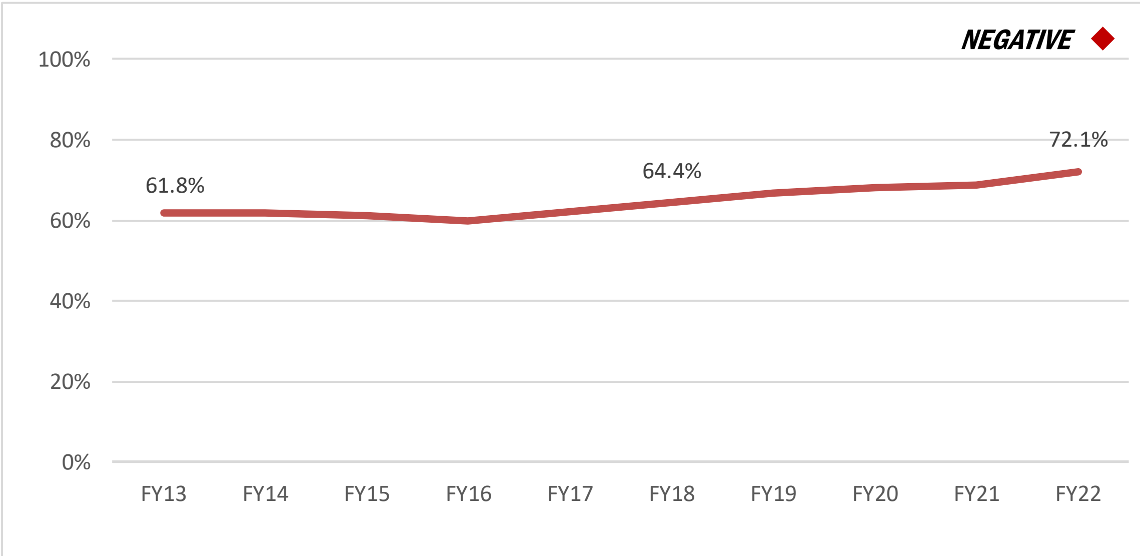
Formula: General Fund Operating Sales and Use Tax / Consumer Price Index (2013 used as base year)

Why are Operating Sales and Use Tax Revenues Included in this Indicator?
Sales and use tax, being the two largest and most significant sources of tax revenue, are considered as one indicator for this forecast. For an accurate analysis, sales and use Tax revenues were identified in both nominal and real dollars (i.e. adjusted for inflation).

Why is This Important to Oklahoma City?
With a tax rate increase in FY18, sales and use tax accounted for 72.1% of all General Fund revenue in FY22. A change in growth rate can impact the City's operations and services provided to residents. Changes in sales and use tax can have a number of causes including state or local economic health, sales tax rate changes, changes in population, the movement of retail operations to and from other communities, and/or taxpayers moving their base to other jurisdictions.[7] The chart above shows declines in FY16 and FY17 as the local economy was impacted by a contraction in the energy sector. FY18 growth was strong at 6.3% base growth, plus a ¼ cent tax rate increase that was in effect for the last 3-4 months of the fiscal year. That growth continued through FY19, but only grew 0.4% in FY20 amid the COVID-19 pandemic. The local economy rebounded at historic levels, with year-over-year tax growth of 4.8% and 16.5% in FY21 and FY22, respectively. After adjusting for inflation, sales tax revenue increased 23.6% over the last five years, or $61 million due in large part to the ¼ cent tax rate increase. If the tax rate increase was excluded and adjusted for inflation, sales and use tax would have grown 15.9% or $40 million over the last five years, which is why the indicator was rated positive.

Current Year Activity
Through January 2023, fiscal year base sales tax has increased 8.1% and use tax grew 10.2% and are projected to grow 7.0% and 10.0%, respectively, at year-end as high inflation continues to exert upward pressure on prices. City staff will continue to provide monthly sales tax collections and refine the sales and use tax forecast as new data and analysis becomes available.

SALES AND USE TAXES AS % OF GENERAL FUND



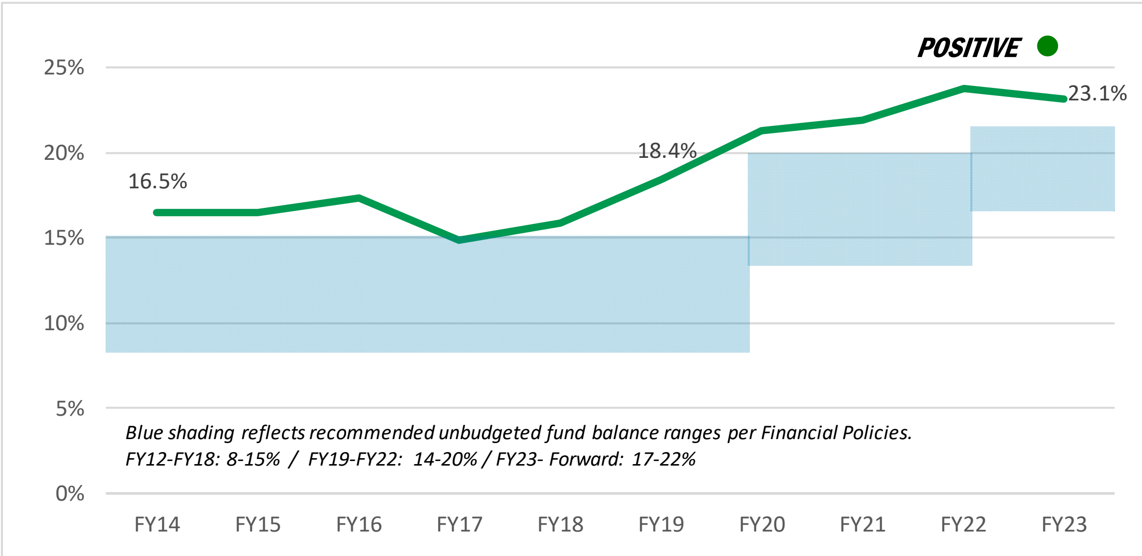
Formula: Sales Tax Revenue / All General Fund Revenue

Why is Sales and Use Tax as a % of General Fund Revenue an Indicator for Financial Performance?
Sales tax is collected at a rate of 2 ¼ cents per dollar and use tax is collected at a rate of 3 ⅛ cents for the City's General Fund. In economic terms, sales and use tax are considered elastic revenue sources; meaning that they change incrementally with changes in the economy.[9] When the economy is strong, sales and use tax revenues grow; when the economy is slowing, these 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 and use 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 these revenue sources leaves the City more vulnerable to economic downturns since other, more stable revenue sources comprise a smaller portion of the City's total revenue. Although sales and use tax has increased as a percent of total General Fund revenue in part due to a tax rate increase in FY18, the City's reliance on these revenues has increased 7.8% in the last five years, indicating a growing dependence on a volatile revenue source for operations. Thus, the rating was downgraded to negative.

Current Year Activity
In FY23 sales and use tax are projected to comprise 69% of all General Fund operating revenue by year end. The City is currently undergoing a detailed cost of services study of user fees to identify gaps between the actual cost of services and the revenues from current fees. Updated fee recommendations will be brought to Council in the coming months.

FUND BALANCE

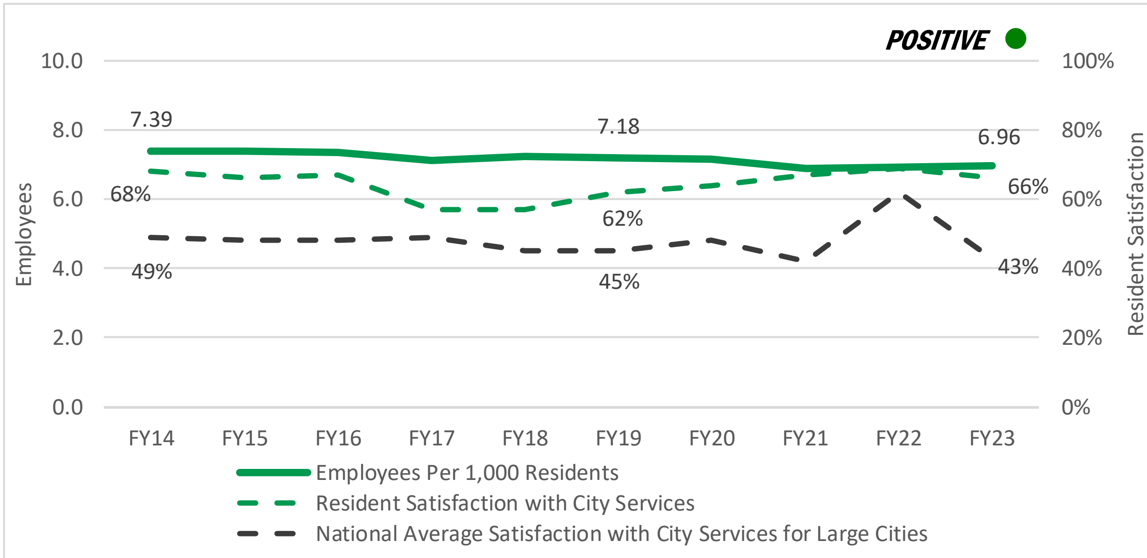


Formula: Unbudgeted Fund Balance / Budgeted Revenues

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

Why is This Important to Oklahoma City?
In FY12, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. For FY19, City Council amended the financial policies and established a range of 14-20%. For FY23, City Council again revised the policy to a new range of 17-22%, which is equivalent to a minimum of two months of operating costs and follows best practices established by the Government Finance Officers Association (GFOA). The revised policy provided for the transfer of unbudgeted fund balance above 22% to a capital maintenance reserve fund or for liquidity purposes. Significant revenue shortfalls caused by downturns in the economy can result in the use of fund balance to supplement recurring revenue to maintain services. Having fund balance to call on during the recessions or downtowns reaffirms the importance of having an adequate reserve. Even with the use of fund balance and revenue declines in FY16 and FY17 the percent of unbudgeted fund balance has remained at or above the high end of ranges set by City policy leading to a positive credit rating.

EMPLOYEES PER 1,000 RESIDENTS



Formula: Number of Municipal Employees / Population / 1000

OKC has consistently outperformed the average for large cities for resident satisfaction in city services.

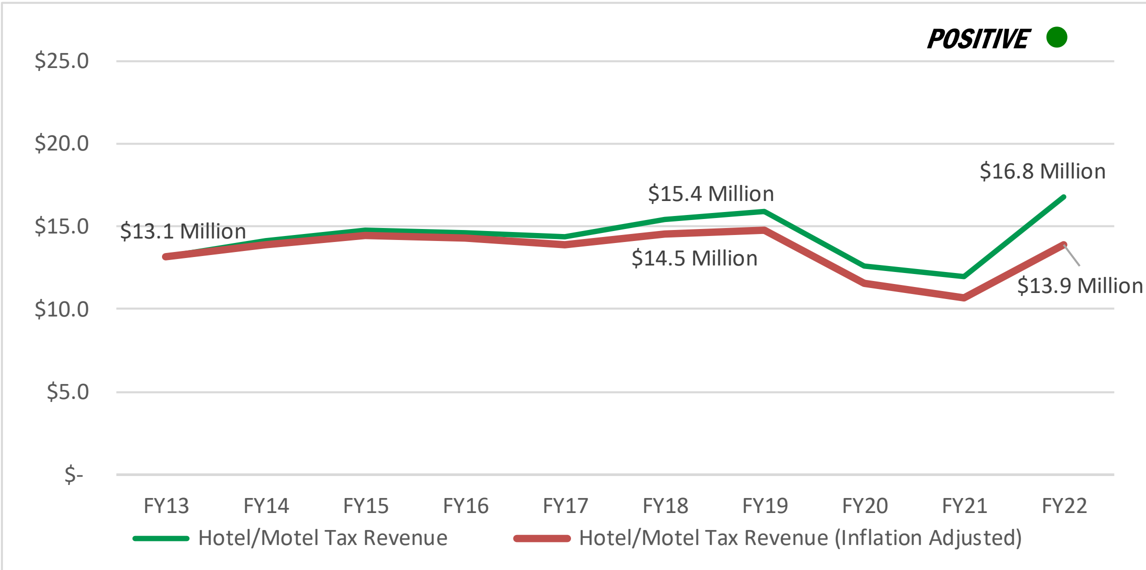
What Does Employees per 1,000 Residents Measure?

Personnel costs are a major portion of a local government's operating budget and plotting changes in the number of employees is important for estimating trends that can affect expenditures. Changes in the number of employees can be an indicator of whether expenses are going to grow faster or slower than population, assist in determining if government is becoming more-or-less labor intensive, and if personnel productivity is increasing or decreasing.[8]

Why is This Important to Oklahoma City?

The number of employees per 1,000 residents provides a quantitative measure of government efficiency, while resident satisfaction provides a qualitative measure of government efficacy. Population grew 7.1% over the five-year period and the number of employees grew 3.9% resulting in a slight decrease in the ratio of employees to residents from 7.2 to 7.0. To ensure that the ratio of employees to population is enough to maintain service levels and address resident priorities results from the annual resident survey are included in the chart. The national average for resident satisfaction among similar sized cities was 43%. The most recent resident survey completed in FY23, reported 66% of residents were satisfied with city services, well above the national average. This is a 6.5% increase from five years ago, but a 4.3% decrease year-over-year. Because the City vastly outperformed the national average and resident satisfaction has improved over the five-year period, the indicator maintained a positive rating.

HOTEL TAX



Formula: Hotel Tax / CPI

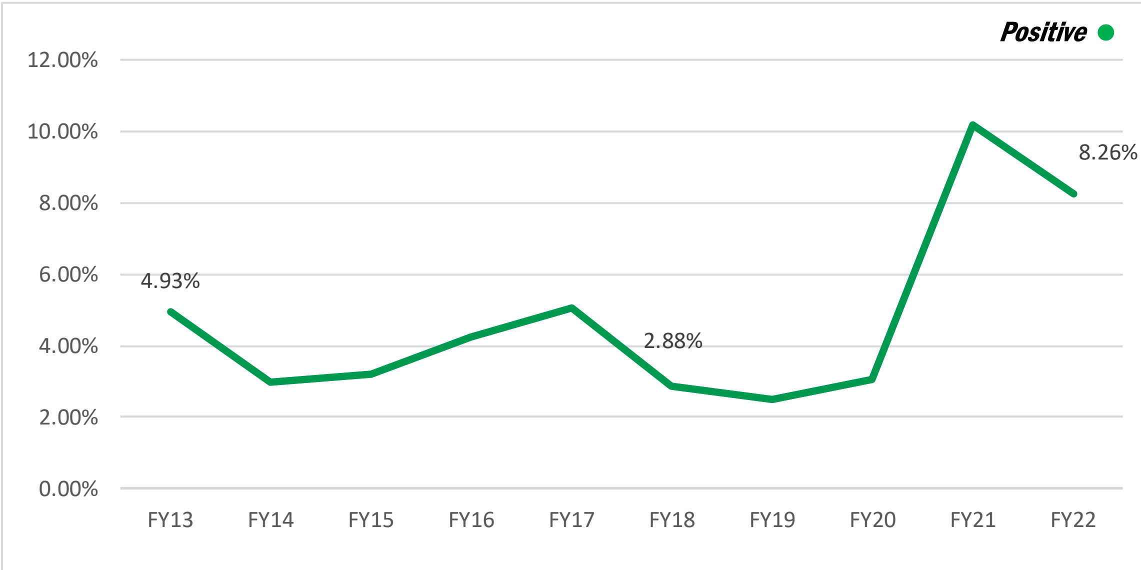
Why is Hotel Tax an Indicator for Financial Performance?
Hotel tax is a financial indicator because it gives an indication of both tourism and business activity. While tourism is a growing sector for Oklahoma City, the overall indicator is more reflective of business activity as business travel still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

The hotel tax rate for Oklahoma City is 5.5%. Of the overall total, 2.0% is dedicated to convention and tourism promotion and is used to fund a contract with the Oklahoma Convention and Visitor's Bureau; 3.0% is dedicated to capital improvements at the State Fairgrounds and the repayment of bonds used to finance those improvements; and 0.5% is dedicated to sponsoring or promoting events recommended by the Convention and Visitor's Commission.

Why is This Important to Oklahoma City?
Hotel Tax for Oklahoma City saw a decline of 1.0% in FY16 and 1.5% in FY17 as the local economy was impacted by the energy sector contraction. In FY18, growth was 7.1%, as more rooms were added to the market and occupancy rates remained steady. In FY19, growth continued at 3.2%, but then had a drastic decline of -20.7% in FY20 and -34.8% in FY21 due to the COVID-19 pandemic. Collections rebounded sharply in FY22, increasing 40.6% year-over-year. In the past five years, hotel tax has grown 9.1% in nominal dollars, but decreased 4.4% in real dollars adjusted for inflation. Given the strong positive trend in nominal dollars and a significant growth in real dollars over the last year, the indicator improved to a positive rating this year.

Current Year Activity
Hotel tax collections have continued to improve in FY23, with 7.9% growth over the prior year through December. The City is currently projecting 4.6% growth at the end of the fiscal year.

GRANT REVENUES



Formula: Grant Revenues / Operating Revenues

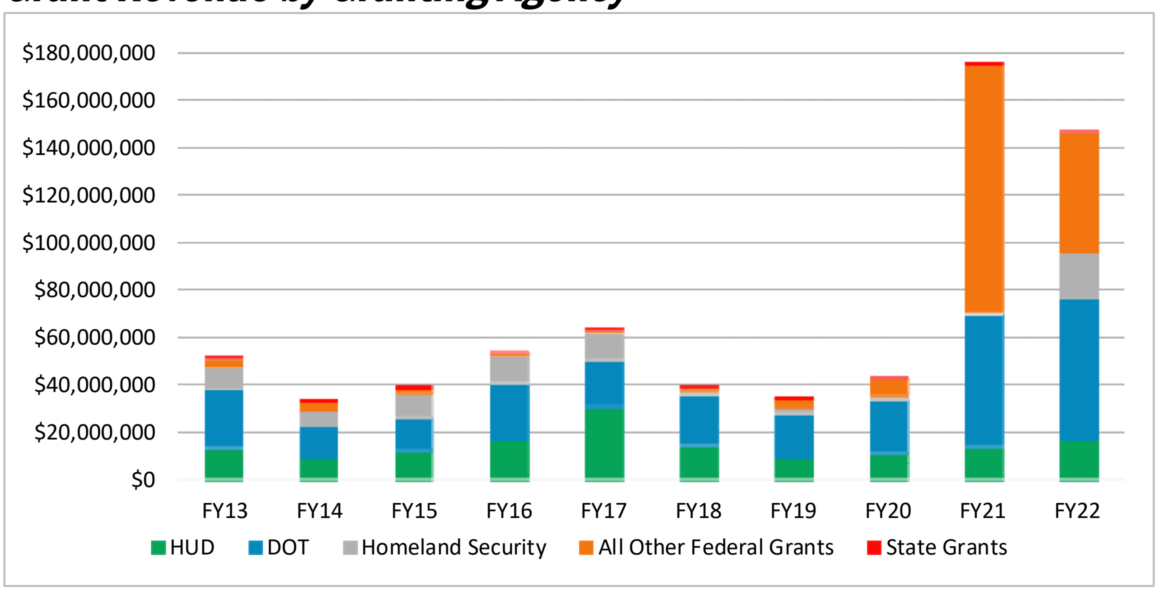
What are Grant Revenues?

Grant revenues generally come from state and federal agencies for specific purposes. An overdependence on grant revenues can be harmful – especially during economic downturns when Federal and State governments struggle with their own budgets. Nevertheless, a municipality may want to maximize the use of grant revenues consistent with its service priorities.[10] The primary concern is to understand the local government's vulnerability to reductions of such revenues, and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

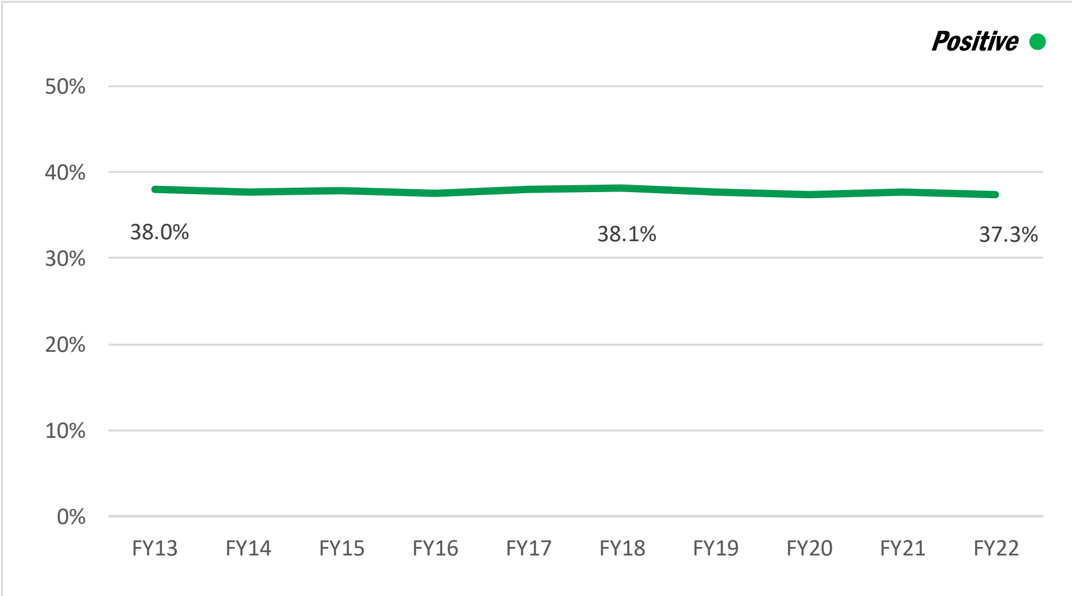
Why is This Important to Oklahoma City?

Without grant funds, many of the social services and capital projects funded by the grants would cease. Some grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. Over the past five years grant revenues as a percentage of operating revenues have averaged 5.4%. In FY14, Federal and State grant funding was at its lowest since 2001, but gradually increased, before dropping again in FY18 due to $24.2 million in disaster recovery grants coming to an end. The decline continued through FY19 but increased significantly beginning FY21 due largely to COVID-19 pandemic related grants from the Department of Treasury from the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Consolidated Appropriations Act of 2021 for emergency rental assistance (ERA); and Coronavirus State and Local Fiscal Recovery Funds from the American Rescue Plan Act (ARPA) of 2021. With 186.4% growth over the past five years, despite an 18.7% decrease from FY21, the indicator maintained a positive rating.

Grant Revenue by Granting Agency

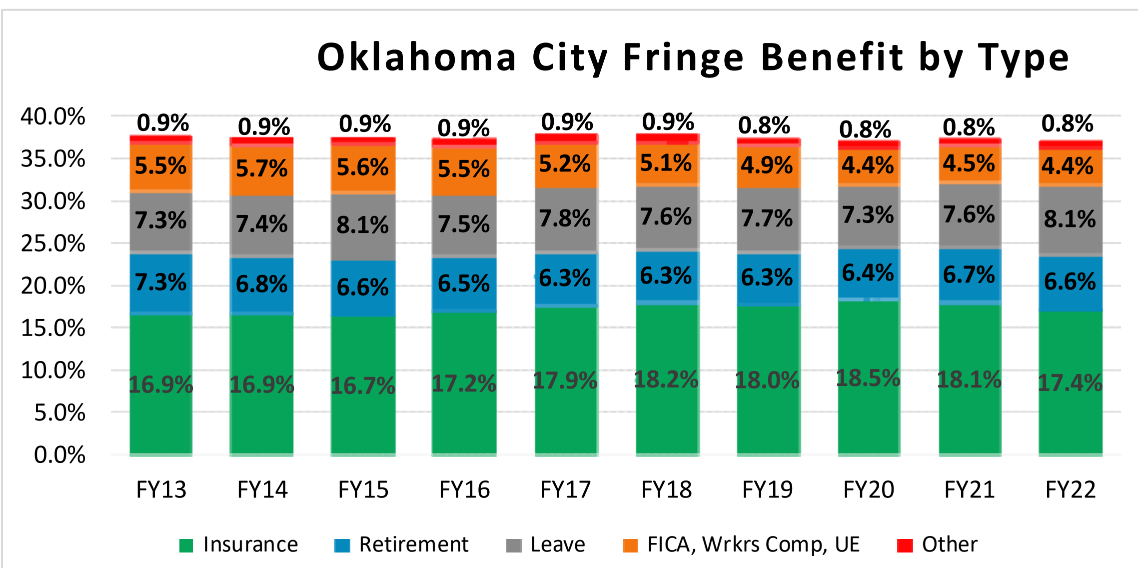


FRINGE BENEFITS



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

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

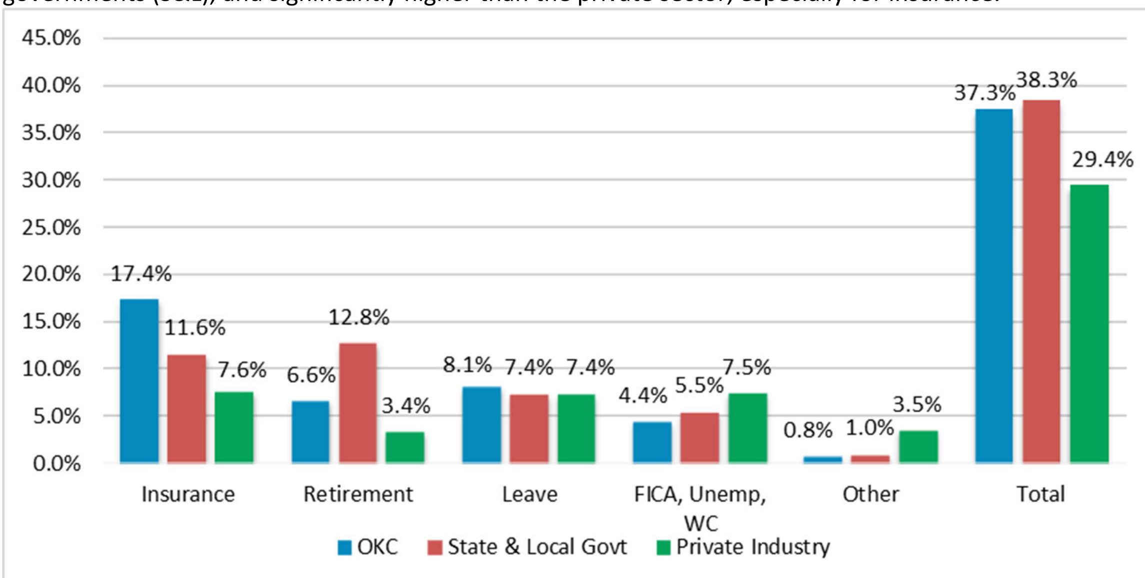


Why is This Important to Oklahoma City?
Benefits are a significant share of operating costs and are more than one-third of employee compensation. Health insurance, retirement/pension contributions, and retiree health insurance are all top 10 expense items in the FY23 General Fund budget. Staff has worked to keep benefit cost increases from growing too fast through initiatives such as higher co-pays on health plans, additional premium sharing and an employee

medical clinic to provide primary care services. Another fringe benefit is post-employment health insurance, which is made primarily administered on a pay-as-you-go basis. This differs from advance funding, the method used for pension contributions. Pay-as-you-go only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. Fringe benefit costs, as a percentage of total compensation, has slightly decreased over the past five years and is lower than the average for state and local governments, resulting in an improved positive rating.

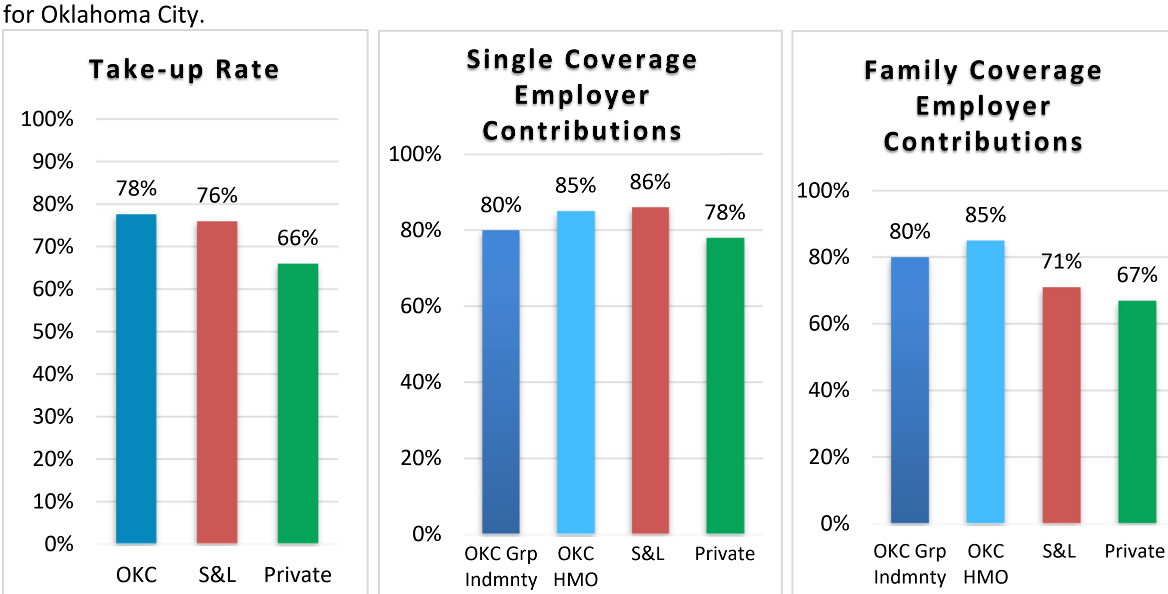
How Oklahoma City Compares

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

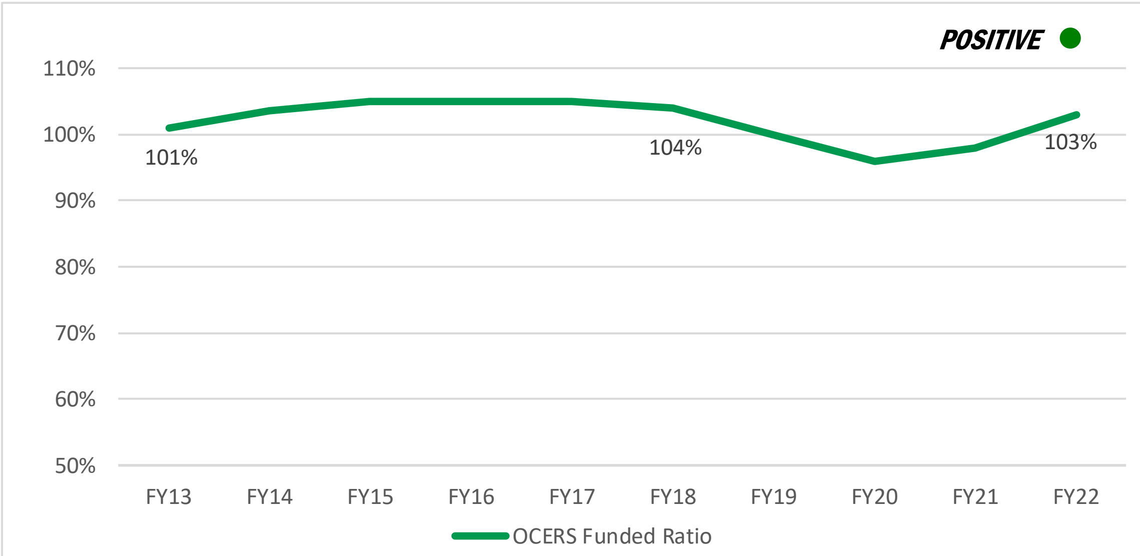


A Closer Look at Health Insurance

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



PENSION FUNDING RATIO



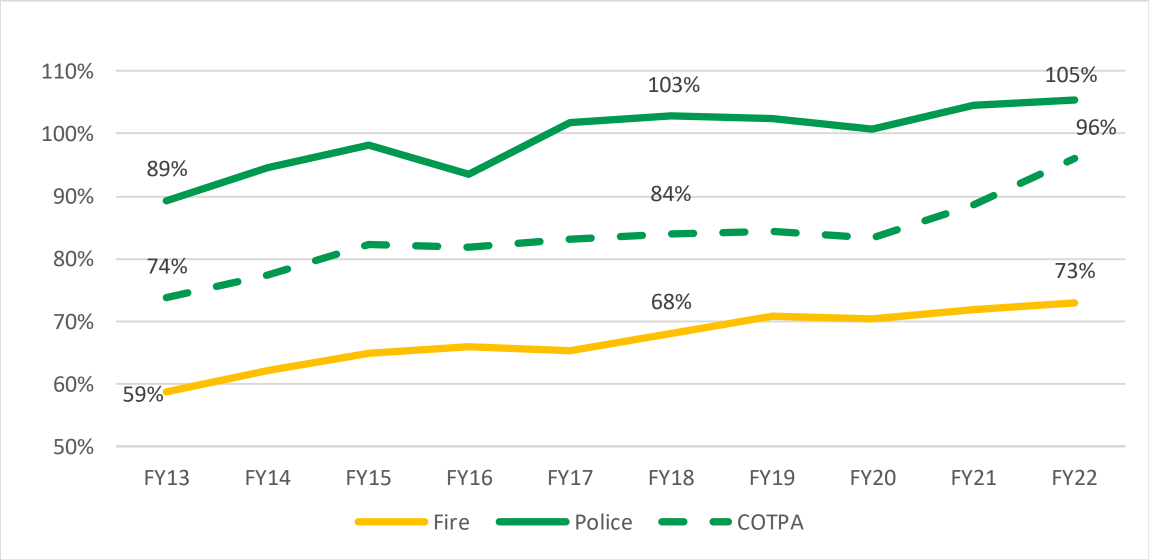
Formula: Ratio Provided and Calculated by Pension Plan Actuaries

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

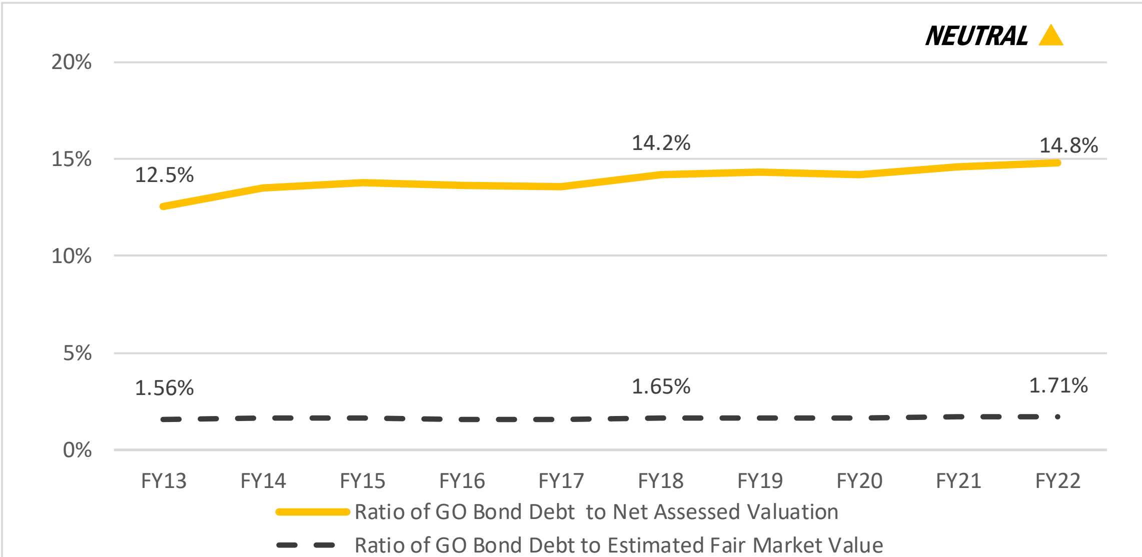
Why is This Important to Oklahoma City?
The Oklahoma City Employee Retirement System (OCERS) is the primary pension system for many City employees. Fire and Police uniform employees are covered by state-operated pension systems, and Central Oklahoma Transit and Parking Authority employees are also covered by a separate pension system. 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. From 2013 through 2019, the ratio was at or above 100%. In 2020, several assumptions were changed including reducing the rate of return from 7.1% to 7.0% and reducing wage inflation from 3.25% to 3.0%. Based upon funding levels continuing to exceed 100%, although there was a decrease of 1.0% from five years ago, the indicator remained positive. The City continues to make the actuarially recommended contributions to OCERS.

Other Pension Systems

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



LONG-TERM DEBT



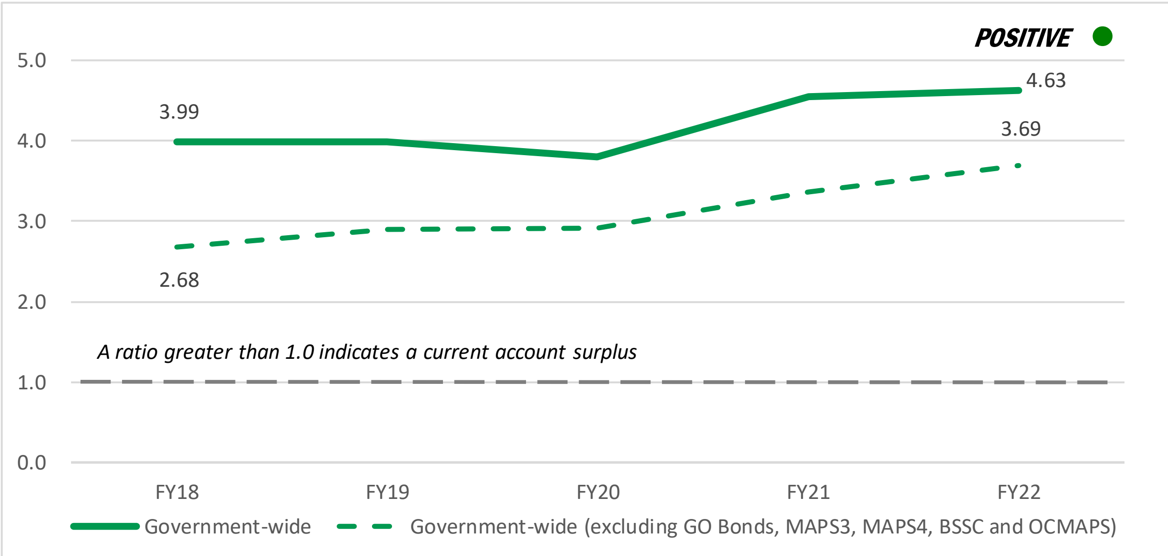
Formula: General Obligation Bonded Debt (Bonds Outstanding as of June 30 less Reserve) / Net Taxable Assessed Value

How is Long Term Debt Measured Here?
Long term debt for this analysis is the ratio of general obligation (GO) debt outstanding as of June 30 to the net assessed valuation. The GO debt outstanding as of June 30 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.[10]

Why is This Important to Oklahoma City?
Oklahoma City's long-term debt ratio has gradually increased over the past ten years from 12.5% to 14.8%. Lower interest rates allowed more bonds to be sold, which resulted in more projects completed. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than $110 million for streets. Although debt grew slightly faster than net taxable assessed value over the five-year period the mill levy remained below the informal policy of 16 mills and therefore, the long-term debt ratio of 14.8% in FY22 is viewed as being stable and maintains a neutral rating.

The unrated indicator was added to track GO debt as a percentage of the City's estimated fair market value of taxable property. While similar to net bonded debt, this measure divides GO bond principal outstanding as of June 30 (excluding reserves) by the estimated fair market value of the City's taxable property. Fair market value is not capped like net taxable assessed value so this measure helps track the debt burden set in the City's debt policy. It states the City's amount of direct unlimited and limited tax general obligation debt outstanding at any time should not exceed 3.0% of the City's estimated full market value. A debt burden that ranges from 3-4% tends to be viewed as average.

LIQUIDITY



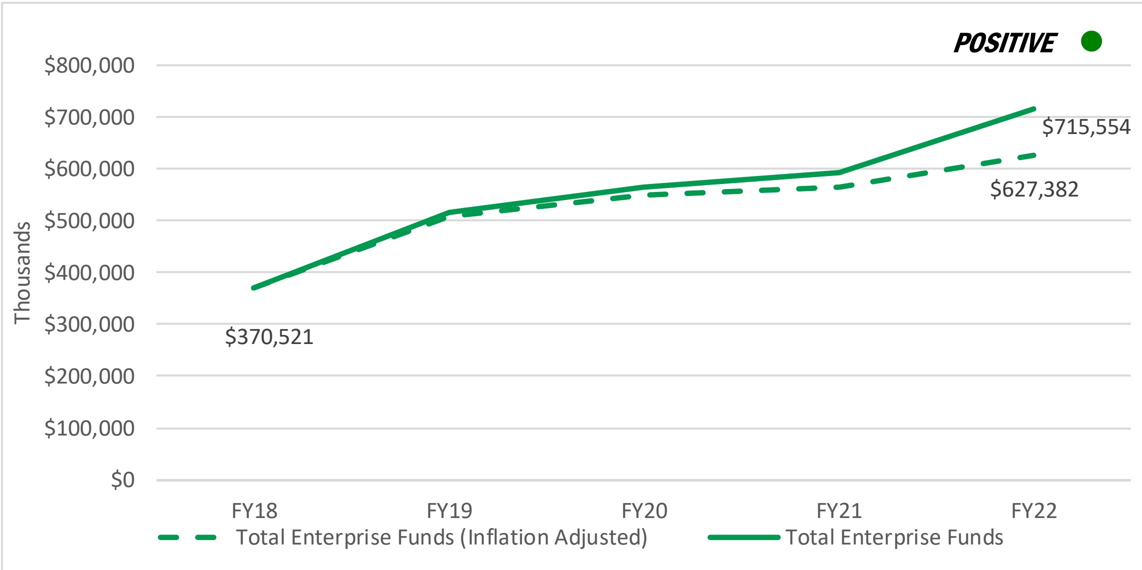
Formula: Cash and Current Investments / Current Liabilities

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

Why is This Important to Oklahoma City?
During the last five years, the liquidity ratio has remained around 4.0, indicating a current account surplus. In FY15 the ratio began to decline slightly each year due to completion of planned capital projects, before increasing 20% in FY21. In FY22, the ratio improved another 16% and the indicator retained a positive rating.

A secondary data set provides a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, but instead it excludes five of the largest funds: General Obligation Bonds, MAPS 3, MAPS4, OCMAPS, and Better Streets Safer City which are restricted to the purpose of funding capital projects. This "practical" liquidity rate has also trended positive during the five-year period with assets growing more consistently than liabilities, providing insight into the cash position for operations. The more "practical" liquidity rate was 3.69 in FY22, indicating that operational funding is also healthy.

ENTERPRISE WORKING CAPITAL



Formula: Enterprise Working Capital = Current Assets – Current Liabilities

What is Working Capital?

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

Why is This Important to Oklahoma City?

Sufficient enterprise working capital makes it easier to fund capital outlay and improvements after paying all current liabilities incurred from daily operations. Over the five-year period, enterprise working capital increased 93.1% in nominal dollars, and 69.3% in real dollars adjusted for inflation.

1 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, Evaluating Financial Condition: A Handbook for Local Government. Washington DC: ICMA, 2003.1.

2 City of Oklahoma City Planning Department.

3 Price Edwards Oklahoma City Mid-Year 2022 Office Market Summary https://www.priceedwards.com/market-trends/office

4 Baker Hughes Rig Counts. January 2023 https://rigcount.bakerhughes.com/na-rig-count

5 Nollenberger 16.

6 Nollenberger 41.

7 Nollenberger 32.

8 Nollenberger 51.

9 Nollenberger 23.

10 Nollenberger 79.

FIVE-YEAR FORECAST

FISCAL YEAR 2024 - 2028

SECTION 4

ECONOMIC OUTLOOK

FIVE-YEAR FORECAST

FISCAL YEAR 2024-2028

THORBERG COLLECTORATE

2022-2023

Oklahoma Economic Outlook

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

Prepared by: Russell Evans
Chief Economist | Partner
Thorberg Collectorate

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INTRODUCTION

2023 will begin much as 2022 did – with talk of recessions. In 2022, the conversation was premature. Declining real GDP in the first and second quarters of the year seemed to indicate a recession, but labor markets and consumer spending showed otherwise. While no rigorous and technical definition of a recession exists, recessions tend to be self-revealing. If you must ask if the economy is in recession, the answer is no.

For example, from 2022 Q1 into 2022 Q2 real GDP fell for 40 states, with the sharpest contractions in Wyoming and Connecticut. Over this same period, the real GDP in Oklahoma fell at an annual rate of -1.6%. Nonfarm employment rose in nearly every state, with Alaska and Wyoming being outliers. Nonfarm employment growth in the second quarter in Oklahoma grew at an annual rate of 2.8%. A strong labor market coupled with consumer spending supported by record savings kept the economy out of recession.

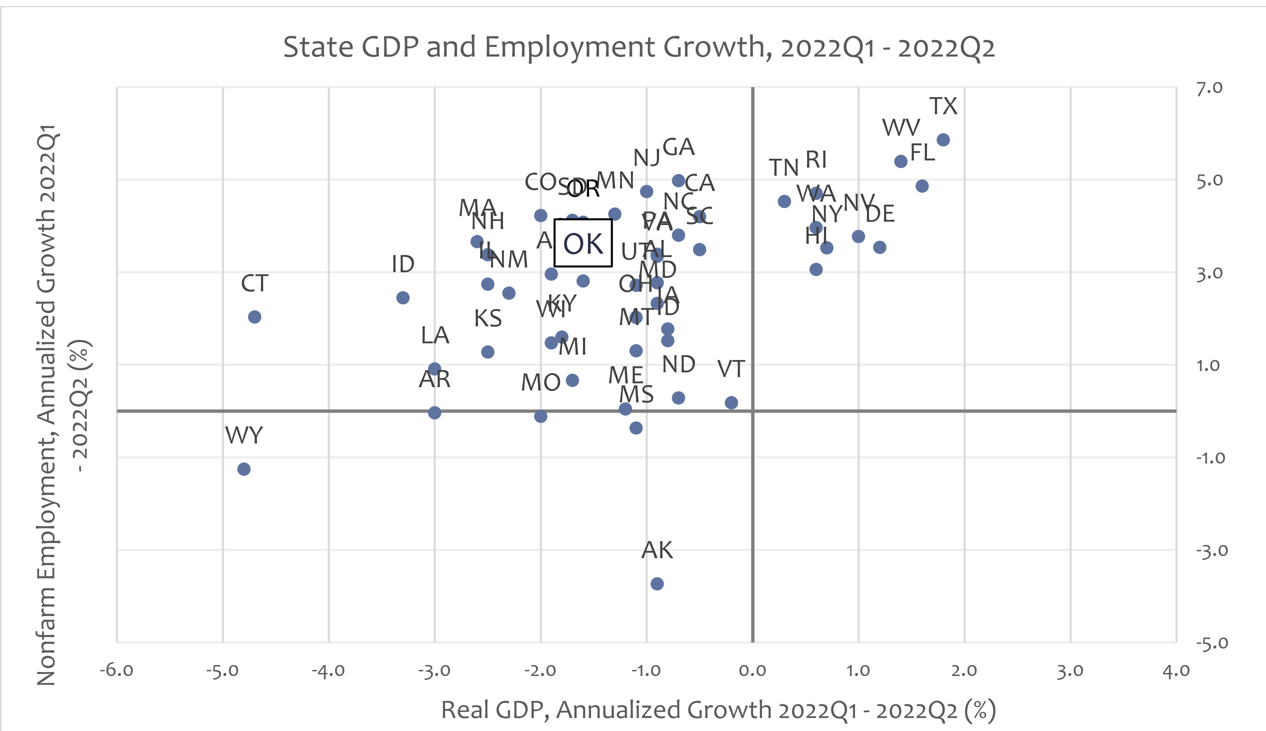


Figure 1.1 State GDP and Employment Growth

In 2023, the question is whether labor market strength and resilient consumer spending can maintain their strength in the face of tightening monetary policy and support additional economic growth.

Both labor market conditions and consumer spending remain strong by historical standards, but both are deteriorating, with consumer spending declining rather aggressively.

The pace of new job creation has slowed in recent months from a peak of 714,000 net new jobs in February of 2022 to a preliminary estimate of 284,000 net new jobs in October of 2022. The pace of job openings is also gradually slowing from a peak of 11,855,000 job openings in March of 2022 to 10,334,000 job openings in October.

Slowly, the number of persons identified as participating in the labor market as unemployed and looking for work is rising, with 6,059,000 persons identifying as such in October. The balance between job openings and the unemployed population still indicates a tight labor market, with 1.7 job openings per unemployed person.

The current pace of job creation and openings is generally consistent with a healthy economy, but the trajectory suggests the labor market's strength is waning. All hopes of a policy soft landing in 2023 hinge on the ability of the labor market to support modest job creation and wage gains to offset falling demand from higher interest rates and tighter financial conditions.

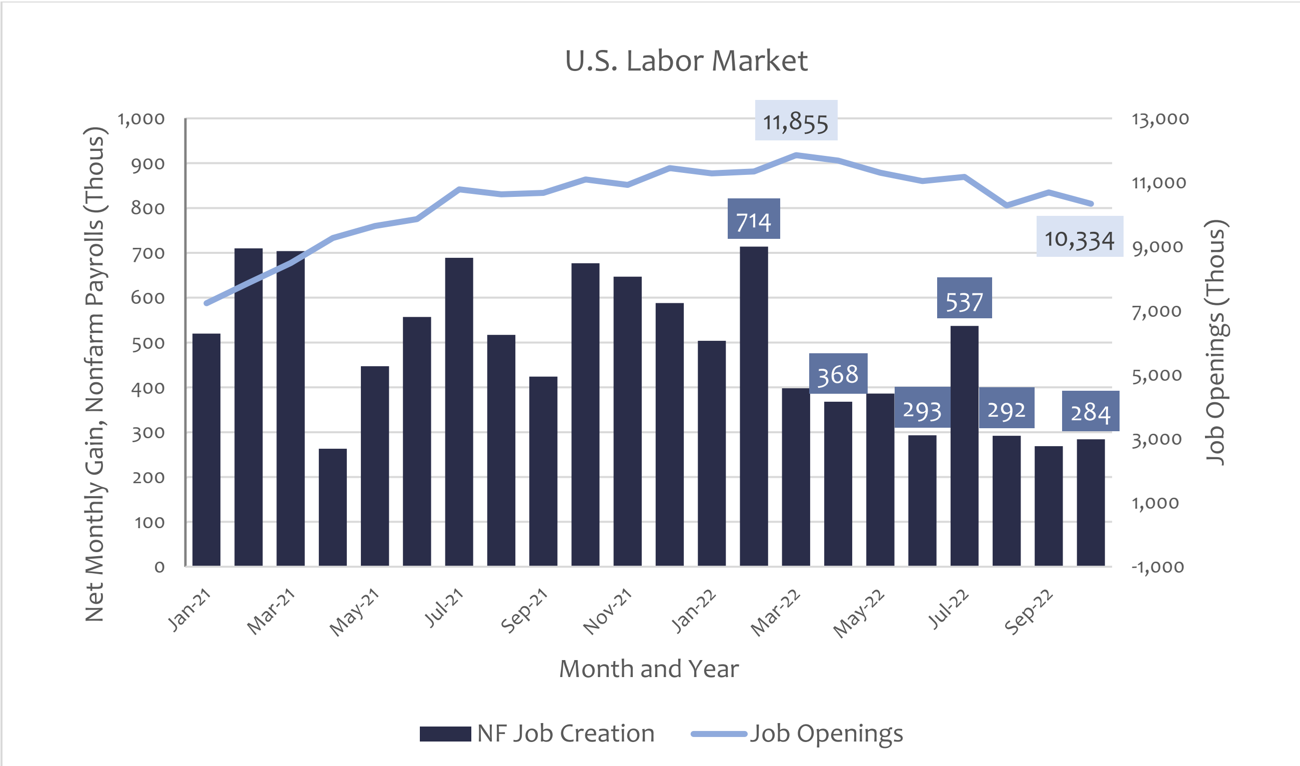


Figure 1.2 U.S. Labor Market

Consumer spending is offsetting weakness in business investment to support U.S. economic growth. Consumer spending, in turn, is being supported by a mix of savings and credit that is quickly eroding. Household net worth and savings are falling, while credit card use, and delinquencies are rising. It is increasingly unlikely that household spending will be able to keep pace with inflation through 2023. Household net worth fell from $142 trillion in late 2021 to $135 trillion in 2022 Q2. At the same time, household savings have fallen to a level well below their pre-pandemic value. The pace of consumer spending slowed markedly in November 2022, with credit card balances, delinquencies, and issuances all up significantly from a year ago.

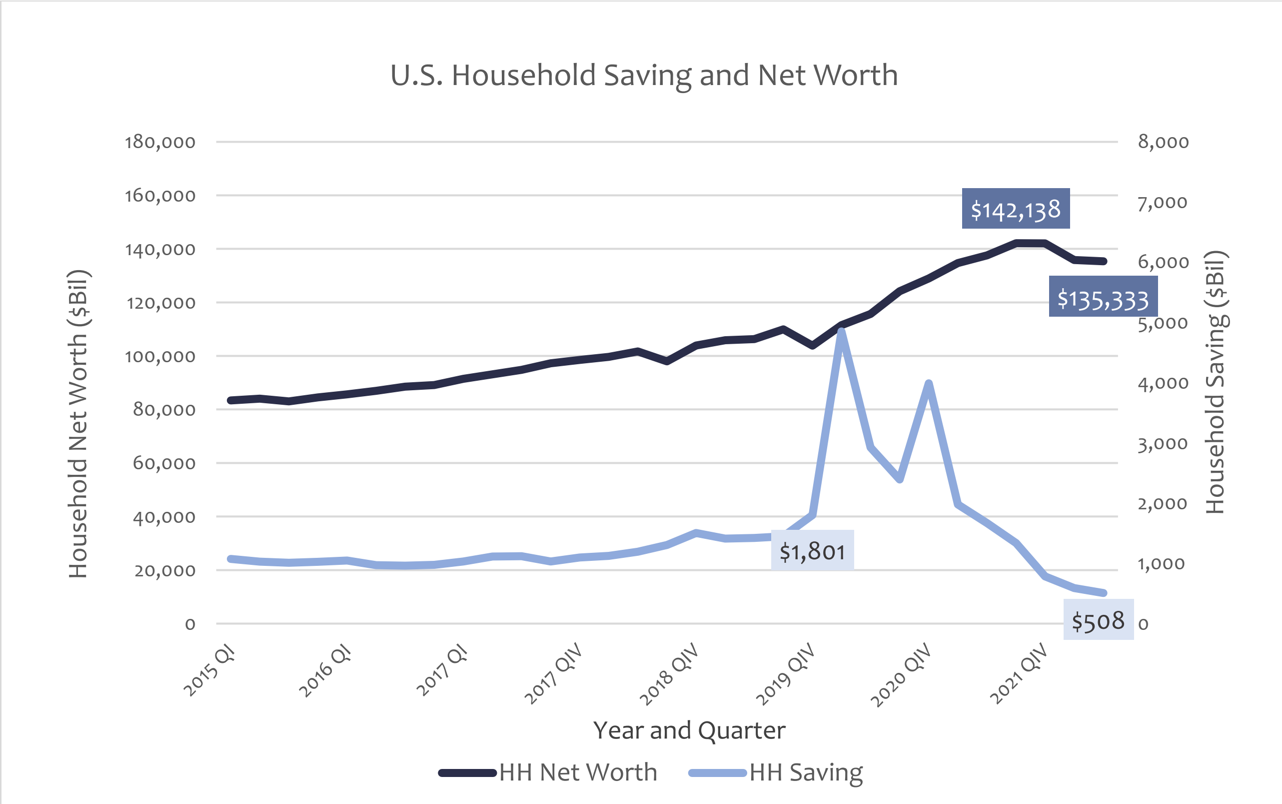


Figure 1.3 U.S. Household Saving and Net Worth

A recent Federal Reserve report notes that excess savings are declining from its pandemic policy peak, with the remaining extra savings held disproportionately by high-income households. Heading into the second half of 2022, the report noted that, for now, excess savings would provide a buffer to support household spending as the economy slows. That buffer appears to wane as we head into 2023 as banks tighten lending standards, household net worth falls, and credit card balances and interest charges increase.

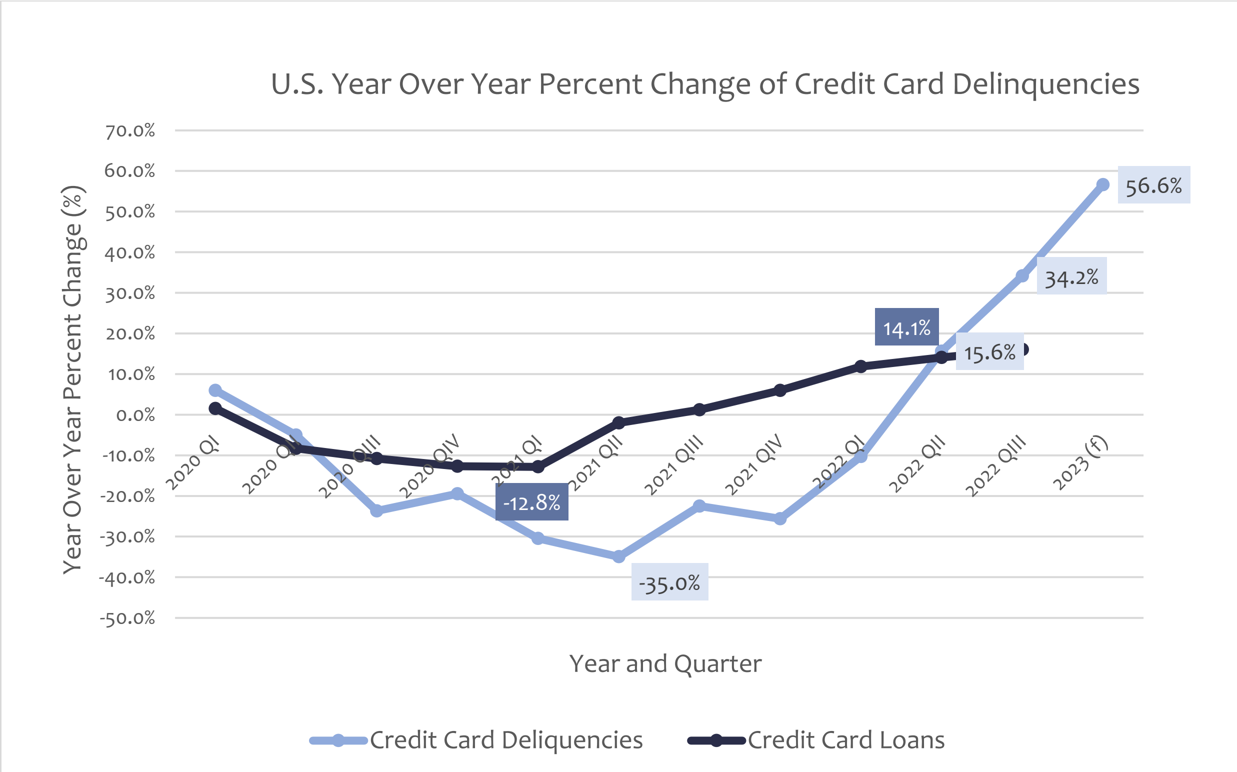


Figure 1.4 U.S. Year Over Year Percent Change of Credit Card Delinquencies

Transunion's 2022 Q3 Quarterly Credit Industry Insights Report [1]found consumers turning aggressively to credit card debt and unsecured personal loans to support spending in the face of inflation and slowing economic activity. Credit card balances reached a record high of $866 billion in the third quarter for a 19% year-over-year increase. The average debt per borrower increased 12.7% year-over-year to $5,474. As the share of accounts paying their balance in full decreases and interest rates increase, the cost of carrying debt balance rises, further eroding household balance sheets. As 2022 turns to 2023, consumer spending appetite will fall, leading to an economic slowdown in the coming year.

Turning to the outlook for the year ahead, we begin with a high-level overview of national and state economic expectations. We then turn to the Oklahoma City economy, its growing importance to state economic measures, and the outlook for 2023-2024.

[1] Transunion 2022 Q3 Quarterly Credit Industry Insights Report, [Consumers Turn to Credit Cards and Personal Loans to Manage the Financial Pressures of Inflation | TransUnion]

U.S. ECONOMIC OUTLOOK

A recent Wall Street Journal survey[2] of 23 large financial institutions found all but a handful expect a recession in 2023. Both savings and labor market strengths are expected to buckle under the pressure of tightening monetary policy and the Fed's inflation fight in the coming year. In the outlook graphics below, we present two independent, third-party perspectives on the year ahead. The first is the summary outlook published by The Conference Board [3]and the second is the median forecast of professional forecasters surveyed by the National Association for Business Economics[4]. Links to each are provided in the footnote below. For each graphic, we present each forecast and offer commentary when our expectations differ from that of these bodies.

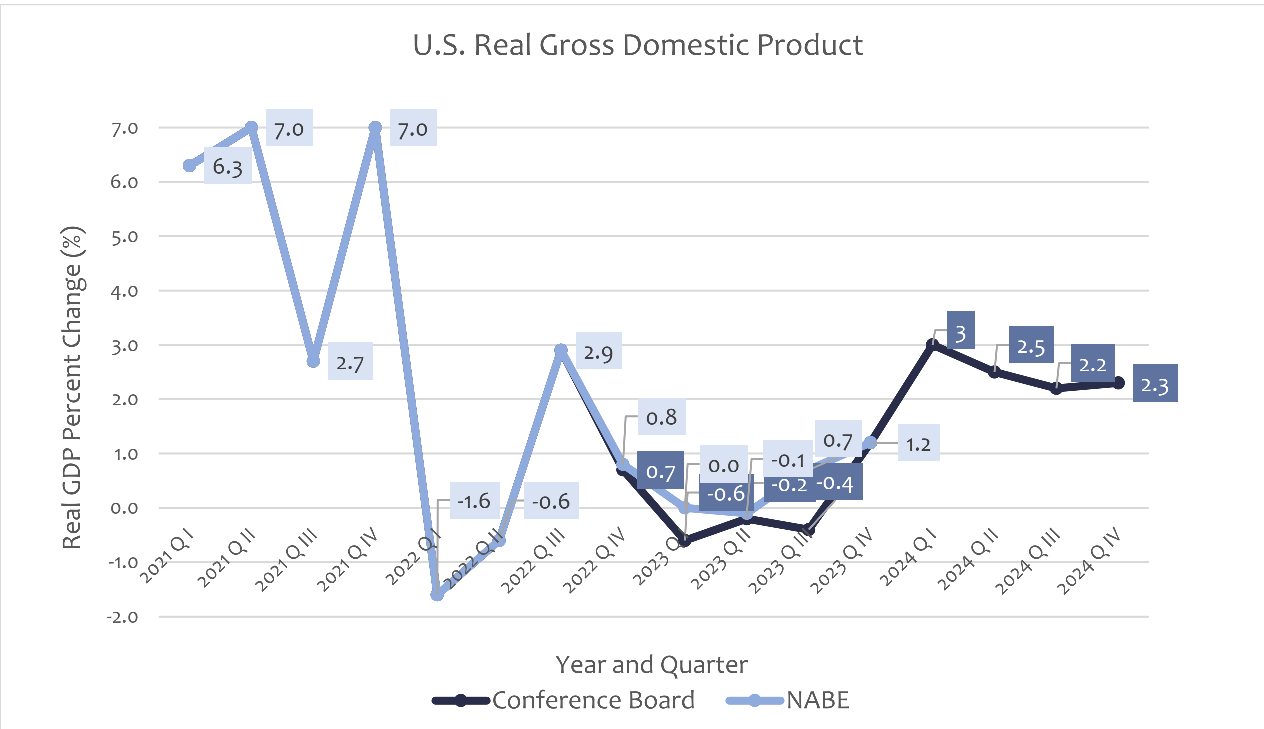


Figure 2.1 U.S. Real Gross Domestic Product

[2] Wall Street Journal, Big Banks Predict Recession, Fed Pivot in 2023 - WSJ
[3] Conference Board, The Conference Board Economic Forecast for the US Economy (conference-board.org)
[4] National Association for Business Economics Home (nabe.com)

Note that the Conference Board and NABE outlooks anticipate only modest increases in the unemployment rate even as they anticipate economic growth to be absent through the next year. We agree that unemployment rates won't rise as much as expected in a recession, but that won't mean the labor market won't feel the effects of an economic slowdown.

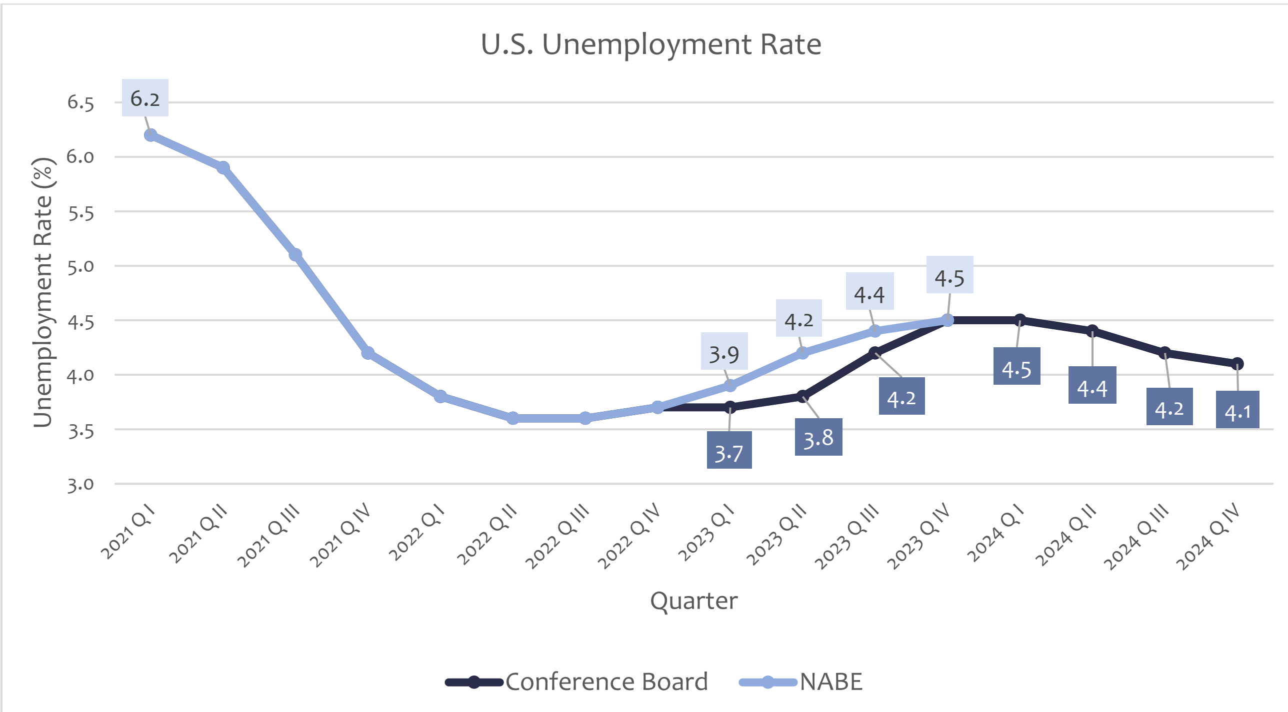


Figure 2.2 U.S. Unemployment Rate

We anticipate the unemployment rate rising closer to 5% or higher next year as layoffs pick up, openings come down, and employers assess the economic environment before committing to labor additions. Policymakers long hoped that inflation would prove to be the temporary and transitory influence of supply chain disruptions and pandemic dislocations. Inflation, however, was persistent and likely fueled by successive rounds of trillion-dollar pandemic relief economic policies chain disruptions and pandemic dislocations.

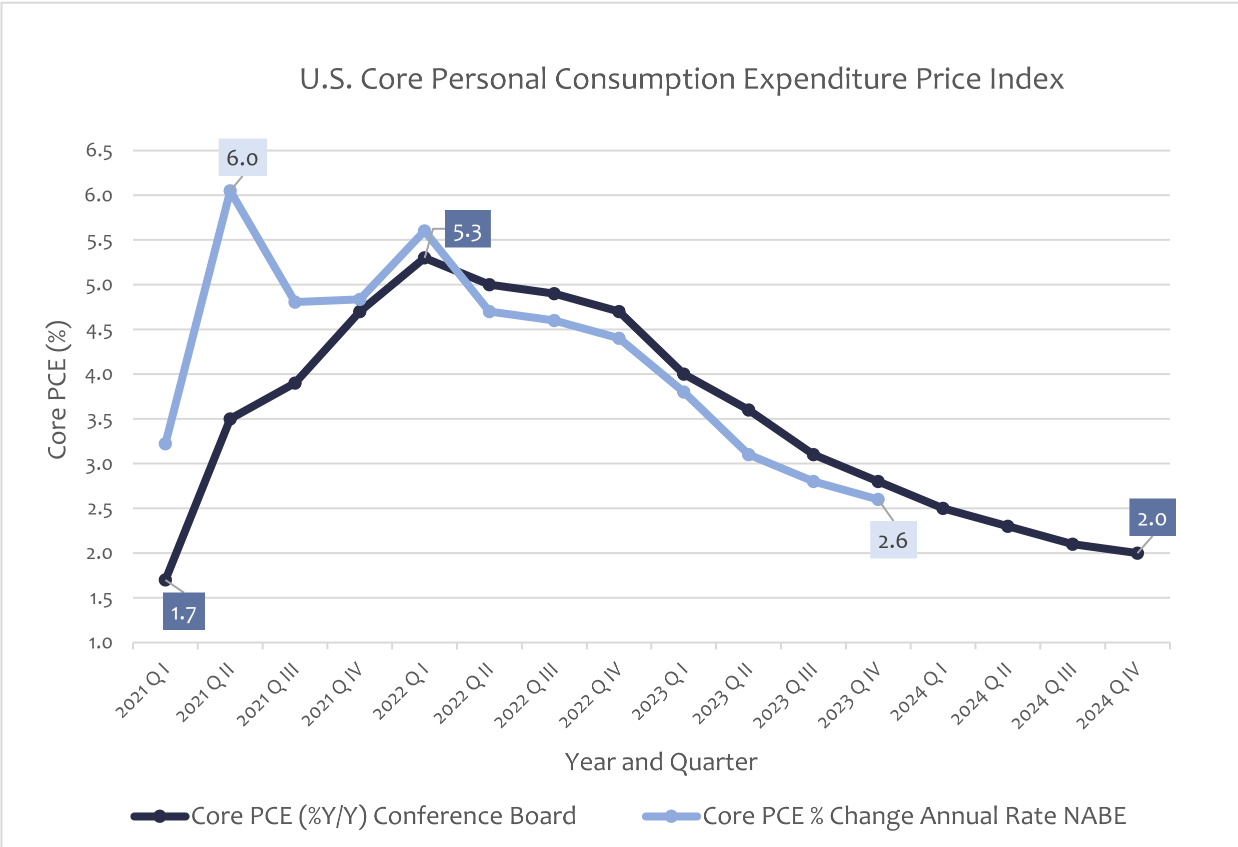


Figure 2.3 U.S. Core PCE Price Index

Core inflation (excluding food and energy) is moderating but remains well above the Fed's two percent target. Inflation, as measured year-over-year, will remain above this policy target through 2023. We expect at least 75 basis points of rate increases in the first half of 2023 before policymakers pause to see the lagged effects of policy on economic activity.

The bond market is sending signals contrary to the Fed. The bond market is signaling expectations that the Fed will abandon course when the economy slows and pivot hard-to-rate cuts in the second half of 2023.

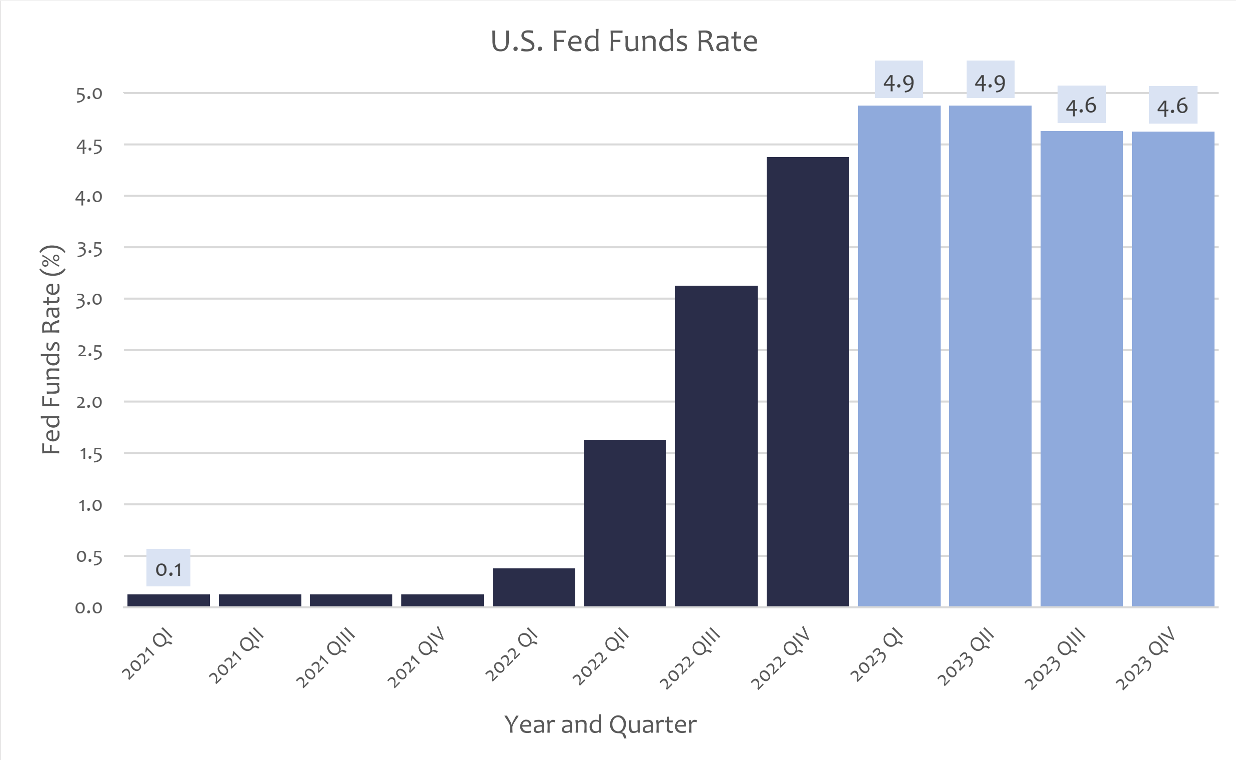


Figure 2.4 U.S. Fed Funds Rate

The Fed is talking about staying the course, holding rates high enough for long enough, and enduring the pain of transitioning back to its 2% inflation target. We think it's wise to listen to Fed signals. We do not expect an aggressive policy pivot. Further, we believe we are at the early stages of a policy regime change away from the decade-plus of ultra-accommodative monetary policy with a shift away from aggressively using the balance sheet to constrain long-run yields and subsidize risk.

OKLAHOMA ECONOMIC OUTLOOK

Much of Oklahoma has enjoyed robust economic strength emerging from the pandemic. Fueled by successive rounds of policy stimulus, strong in-migration, and an energy sector recovery, household balance sheets showed unprecedented strength. In response, consumers relieved pent-up demand for goods and services with a business response that led to historically low unemployment rates and high tax revenue. The recovery, however, has been geographically uneven. The state is estimated to have yet to recover to pre-pandemic levels of economic activity as measured by real gross state product and nonfarm payroll employment.

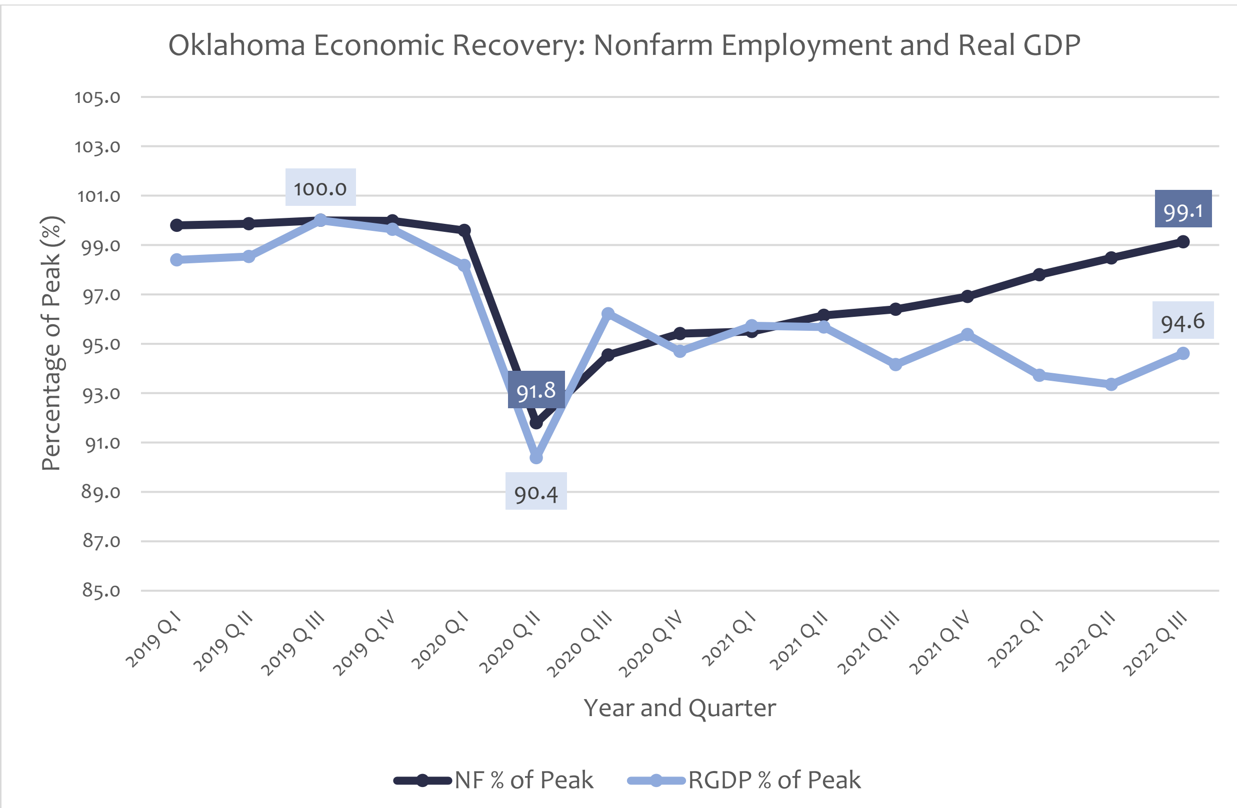


Figure 3.1 Oklahoma Economic Recovery: Nonfarm Employment and Real GDP

Real GDP peaked pre-pandemic in 2019 at more than $200 billion. A sharp contraction at the onset of pandemic restrictions in the second quarter of 2020 followed a sharp rebound as restrictions eased in the third quarter. From there, however, the recovery has moved laterally, with real GDP ending 2022 closer to $192 billion, or 94.6% of its pre-pandemic peak. Oklahoma's labor market tells a similar story. As pandemic restrictions took hold, nonfarm payrolls dropped by more than 132,000 jobs as restrictions eased payrolls increased by 46,900 in the next quarter. While unemployment rates are historically low, the state's labor market has yet to regain all jobs lost in the 2020 pandemic and pre-pandemic peak employment.

The Oklahoma economy is still recovering as it strives to recover the economic activity and employment last in the pandemic recession. Unfortunately, activity appears to be weakening heading into 2023, just as the economy approaches full recovery. The Philadelphia Fed publishes an index of coincident economic indicators for each state. The index is comprised of four variables: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and inflation-adjusted wage and salary disbursements. Moving into and through 2022, growth in Oklahoma's economic activity slowed considerably, with the index expanding by just 0.1% in the second quarter and contracting by 0.3% in the third quarter. Notably, Oklahoma's economic slowdown is more pronounced than that of regional states and the U.S. economy.

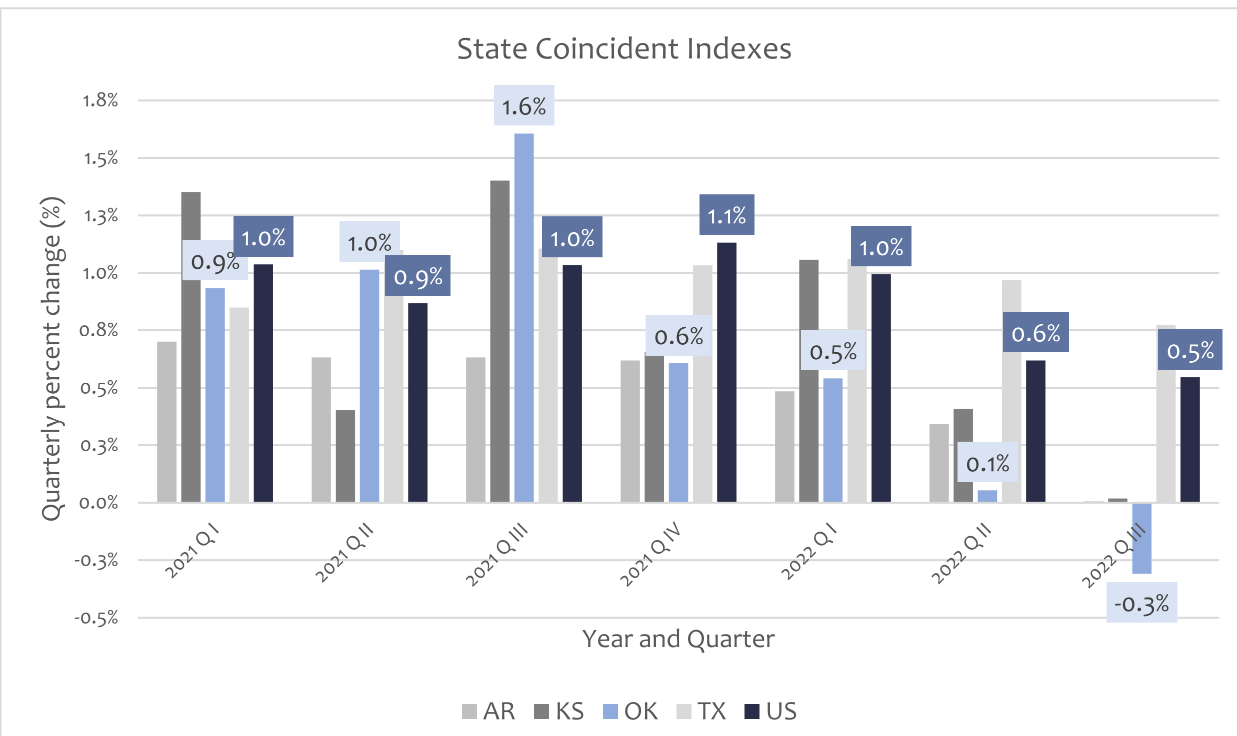


Figure 3.2 State Coincident Indexes

As we turn to the outlook for the coming years, it is worth noting explicitly that we do not force into the model a recession that seems all too likely for 2023.

Instead, we follow the same strategy of previous years and let the information currently in the data guide the models. We encourage readers to adjust this baseline forecast as needed throughout the year as additional observations and information become clear.

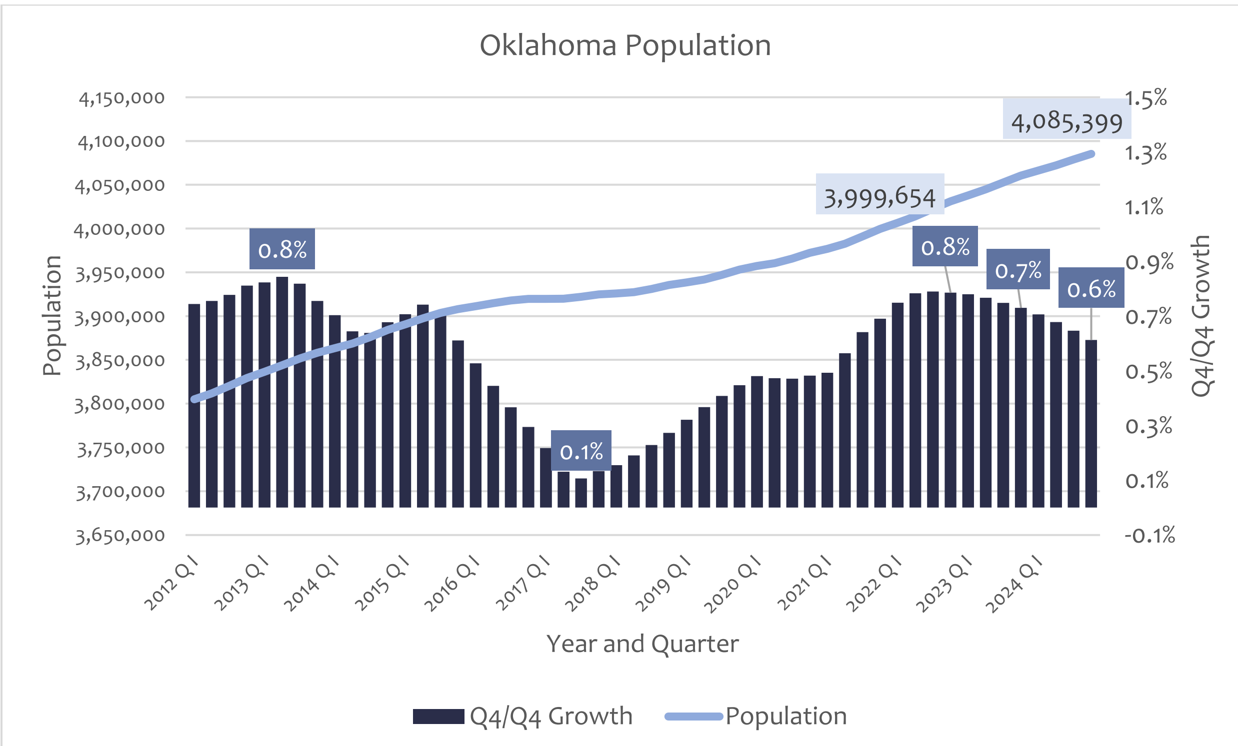


Figure 3.3 Oklahoma Population

Over the last decade, Oklahoma's population growth rate consistently averaged 0.6% to 0.8% per year except for periods constrained by energy cycle busts.

During the 2016 downturn, population growth stalled before slowly regaining momentum in the years leading into the pandemic. One effect of the pandemic was to invite hybrid and remote work, which further emphasized the mobility of labor. The result was increased in the state's population growth rate through the pandemic recovery. The outlook anticipates population growth to the lower end of the normal range, with 0.7% growth in 2023, followed by 0.6% growth in 2024.

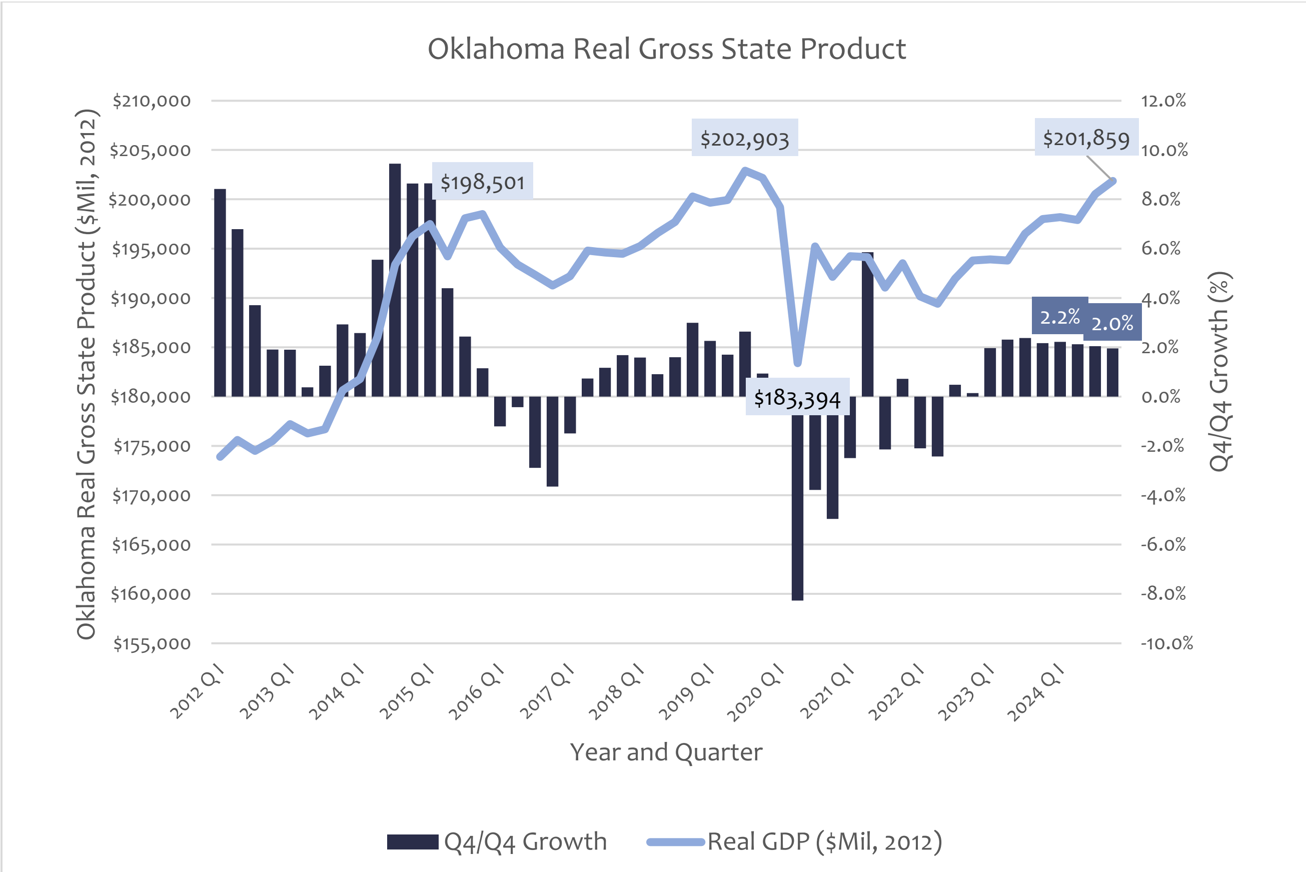


Figure 3.4 Oklahoma Real Gross State Product

Oklahoma's real GDP had just recovered from the 2016 energy cycle bust when the pandemic contraction set in. Real GDP promptly contracted and has slowly recovered from the pre-pandemic high of $202.9 billion. In contrast to falling real GDP, Oklahoma's per capita personal income surged during the pandemic due to successive rounds of trillion dollar federal stimulus policies. We anticipate slow to lateral movements in 2023 before gaining some strength in 2024 and again moving the state to a $200 billion economy.

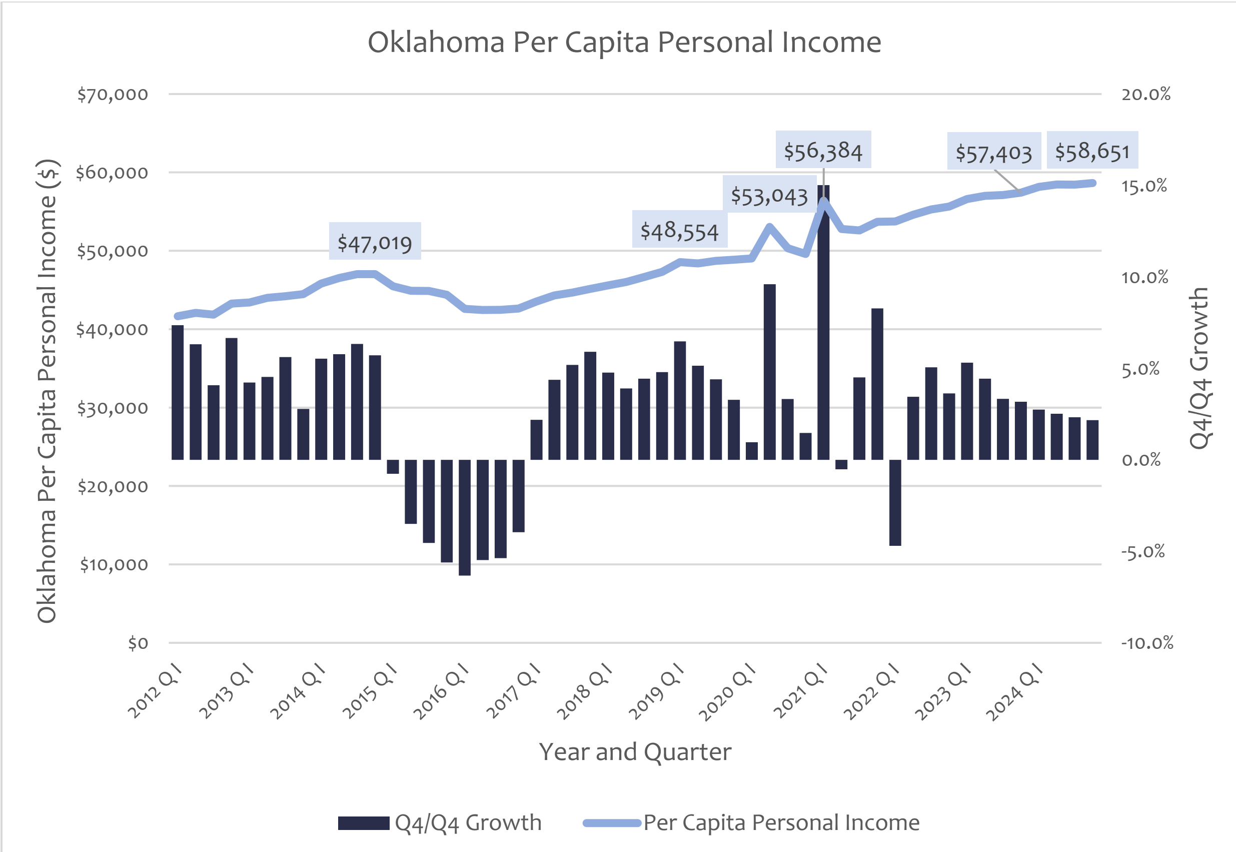


Figure 3.5 Oklahoma Per Capita Personal Income

We expect income gains to slow in 2023, with modest gains in 2024, moving statewide per capita income to $58,651 by the end of the forecast period. The outlook for further income gains is particularly sensitive to the ability of policymakers to thread the needle between constraining demand enough to tame inflation without imposing a serious disruption to labor markets. In other words, the 2024 outlook for per capita personal income is unlikely. Instead, we would expect either a pronounced income recession followed by recovery or modest gains in 2023 to be followed by a stronger economic environment in 2024.

OKLAHOMA EMPLOYMENT OUTLOOK

Oklahoma's labor market remains in the recovery stage, working to regain ground lost during the pandemic. Regaining lost ground will be more difficult in the year ahead as general economic conditions weaken. At the same time, some trends in the data will persist as the pandemic and resulting relief policies saw an initial shift to goods consumption. Still, then a robust rebound in services consumption as pent-up consumer demand for experiences was released. Oklahoma nonfarm payroll employment will end 2022 up 2.5% from the 2021 year-end. Growth will moderate in 2023, with year-end growth up 1.1% and another 1% in 2024. While it is increasingly clear that economic weakness is moving into the state economy, the depth, duration, and timing remain unknown. We continue to encourage awareness of the downside risk in 2023 and the upside risk that a rebound is underway in a much stronger economy in 2024.

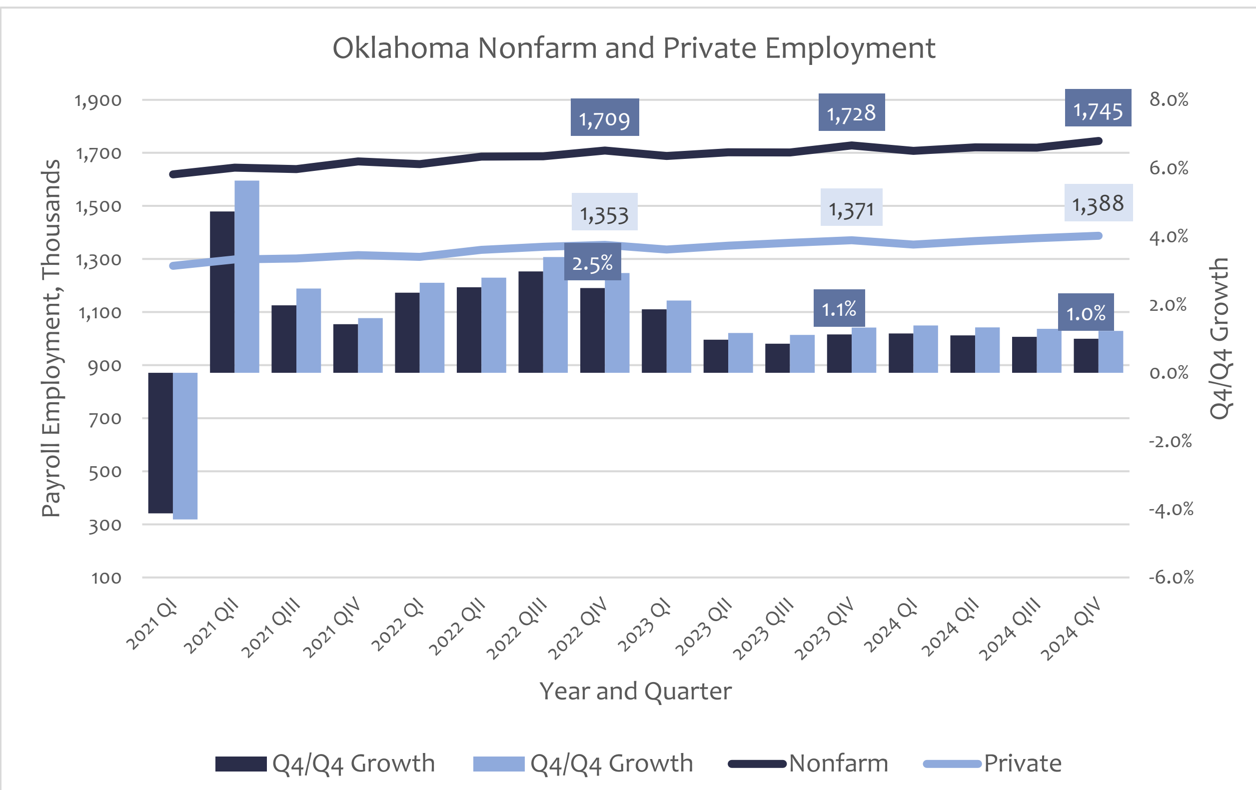


Figure 4.1 Oklahoma Nonfarm and Private Employment

The onset of the pandemic disrupted a long-standing shift from goods production to service-providing sectors in the economy. Demand for goods expanded aggressively as people shifted to a work-from-home and safer-in-place attitude. But as the economy reopened with consumer flush with savings, a pent-up demand for services like travel, eating out, and recreation was unleashed. The resurgence of service sectors should eventually settle back into the long-run trend of strength in these sectors. Payroll employment in the service-providing industries will end 2022 up 2.2% from 2021 Q4.

As economic challenges loom in the year ahead, service sectors are projected to hold current gains and add modestly to their ranks. Year-end Q4 growth is projected to be up 0.8% in 2023, followed by 0.7% growth in 2024.

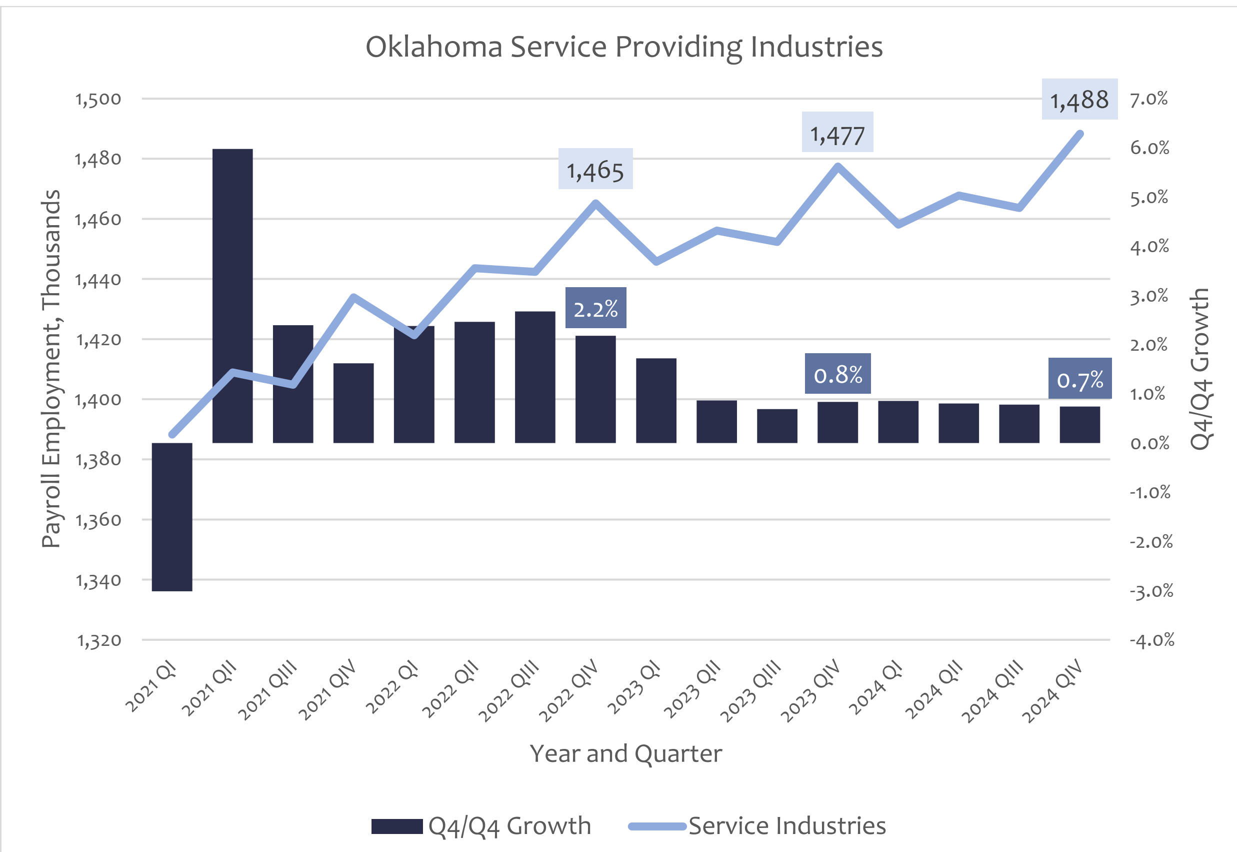


Figure 4.2 Oklahoma Service Providing Industries

Two service industries particularly impacted by the pandemic cycle are financial services and health services. Successive rounds of pandemic relief policies relied heavily on financial institutions for implementation, leaving consumers with unprecedented strength on their household balance sheets. The result was an increased need for financial services from nearly every corner of the economy. The short-run need for additional employment should be distinct from the longer-run trend toward financial services in the state. We expect the industry to show enough strength to hold the jobs added in 2022 and add modestly in the outlook years. Beyond the outlook period, we continue to see financial services as an industry poised for long-run strength, particularly in the state's urban markets. Payroll employment in the sector will grow 2.8% in 2022, followed by 0.9% and 0.8% growth in 2023 and 2024.

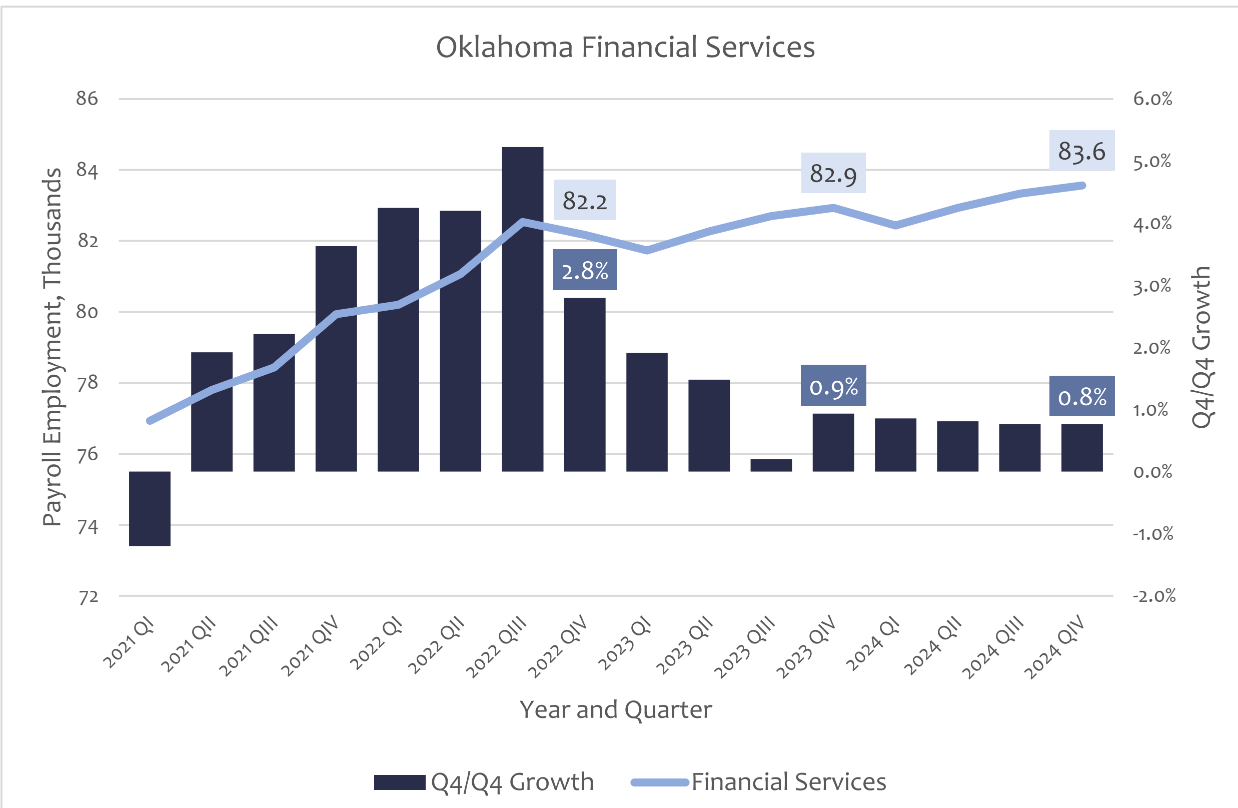


Figure 4.3 Oklahoma Financial Services

Another sector experiencing a unique mix of short and long-run forces is healthcare and social assistance. The pandemic strained the sector as institutions struggled to add employees even as existing employees faced an incredibly challenging environment.

In the long run, the demand for health services is a function of population size, population age, and income.

Areas of the state experiencing a mix of population growth, population aging, and income gains will continue to experience increased demand for healthcare services. Across the state, healthcare and social assistance payroll employment will grow 2.6% in 2022 from year-end 2021. We expect growth to slow through 2023, with 2023Q4 growth of only 0.4% from 2022Q4. Growth will start to rebound in 2024 with year-end growth up 0.8% from 2023.

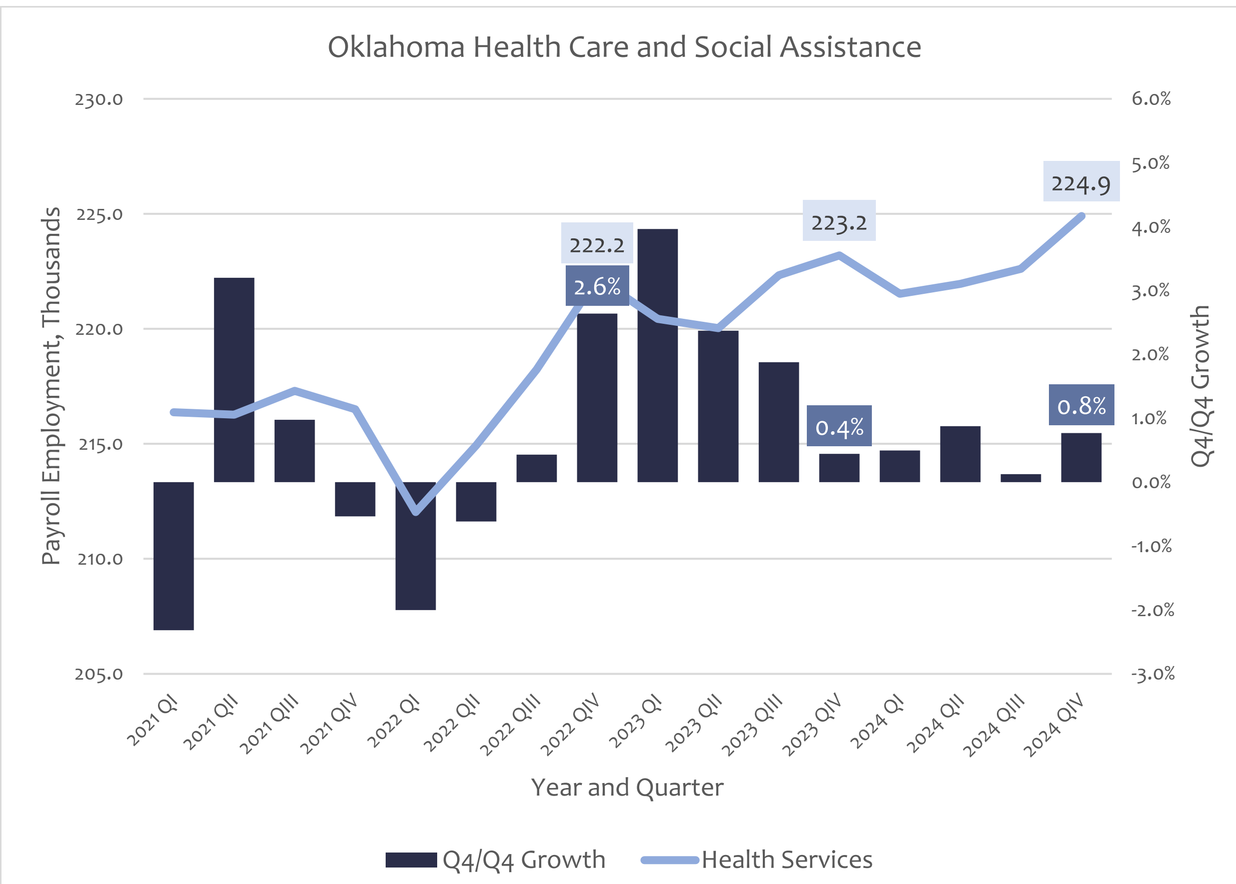


Figure 4.4 Oklahoma Health Care and Social Assistance

OKLAHOMA CITY MSA ECONOMIC OUTLOOK

Before looking forward to the year ahead for Oklahoma City, it is instructive to look back at the evolution of the metro economy and its role in the state's economic fabric. The dual forces of economic geography pulling activity to the I-35 corridor and urbanization fueling density have propelled the economic success of Oklahoma City.

These natural forces are, of course, complemented by strategic and deliberate economic development efforts and investments. The result is a metro area that accounts for an increasing state economy share.

Oklahoma City's share of the state's real GDP was 35.2% in 2001 but has grown to 41.1% in 2021. Similarly, the city's nonfarm payroll employment accounted for 36.3% of statewide employment in 2001 but 39.1% of statewide employment in 2021. The natural forces propelling the city to economic success are long-run and likely to carry into the next twenty years. As long as strategic economic development efforts complement these natural forces, the city's share of total economic activity is expected to increase again over the next decade.

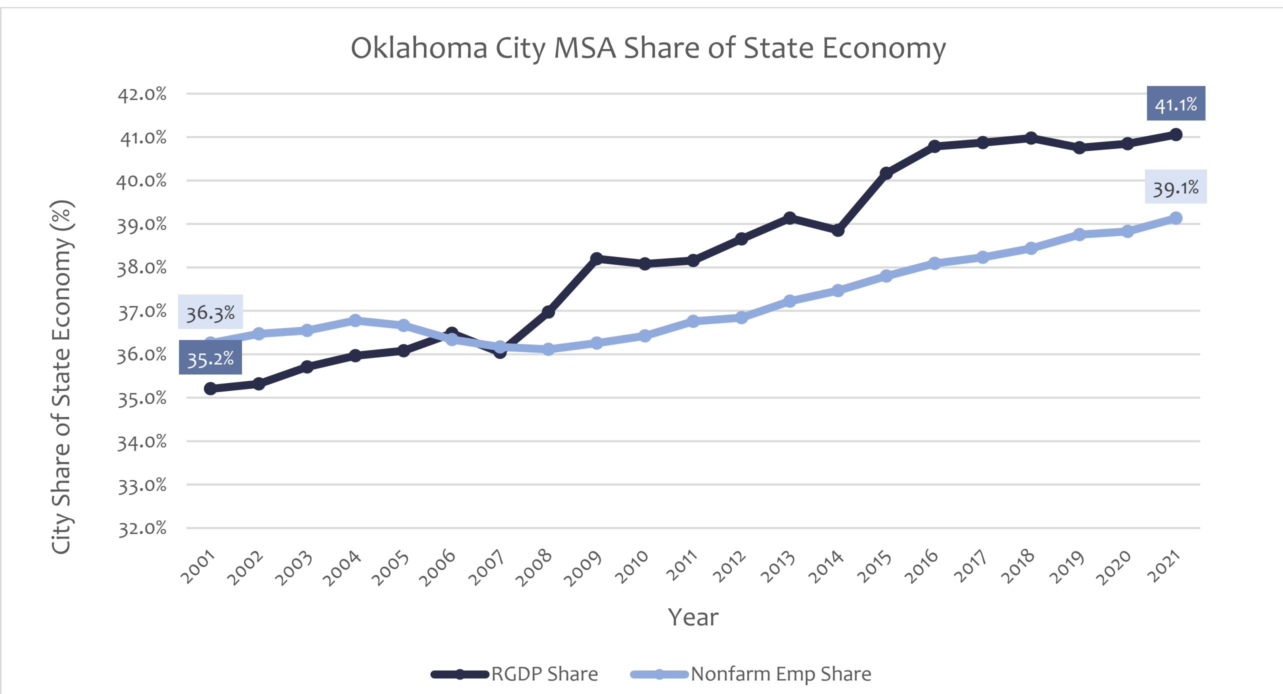


Figure 5.1 Oklahoma City MSA Share of State Economy

The concentration of payroll employment in Oklahoma City has shifted in modest but important ways over the last twenty years. The figure below compares major industry shares of total nonfarm employment in 2001 and again in 2021, sorted from the smallest to largest employment industries. The smallest employment industry is information and publishing, as consolidation has cannibalized local jobs. There is some expectation that Oklahoma City's pending emergence as a motion picture and sound recording hub could grow employment in this industry.

On the other end of the spectrum is the government as the largest employment industry in the city. This is not surprising given Oklahoma City is the state capital, county seat, the largest municipality in the state, and home to large federal employers in Tinker AFB and the Mike Monroney FAA Aeronautical Center. The share of public sector employment has fallen slightly over the twenty years, indicating that the city's share of employment in the private sector has grown slightly over this time frame.

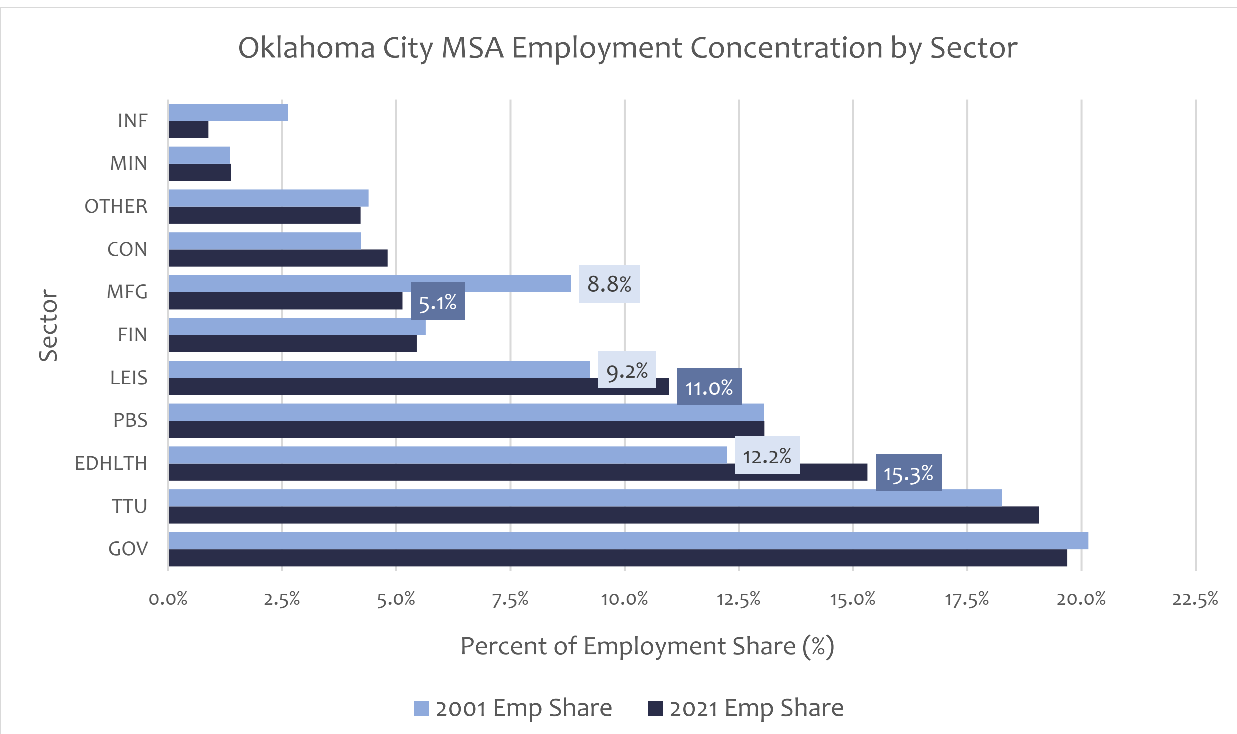


Figure 5.2 Oklahoma City MSA Employment Concentration by Sector

A few industries are worth noting individually. First is the mining (oil and natural gas) sector. Mining's share of the city's nonfarm employment is just 1.4%. This share both emphasizes and overstates the city's lack of economic reliance on the energy sector. On the one hand, it is certainly true that Oklahoma City's economy is not solely or uniquely reliant on the energy industry for economic success, as some, especially outsiders, often assume. On the other hand, operations inside other industries like construction, manufacturing, financial services, wholesale trade, and warehousing are directly tied to the energy sector. So, while accounting for a small share of direct nonfarm employment, the city's economy benefits indirectly from a strong energy sector through these channels.

More important to note from the shifting of shares is the move of the Oklahoma City economy from goods production to services production. Oklahoma City's share of total employment in manufacturing fell from 8.8% in 2001 to 5.1% in 2021. The manufacturing sector remains important to the metro economy as the value of production and contribution to metro GDP remains strong. But the industry is less labor intensive as capital displaces labor in the sector. In contrast, two labor-intensive service sectors, leisure and health services, have increased their share of Oklahoma City employment considerably. Leisure services, which include hotels, food services, and arts and recreation, have risen to 11% of nonfarm employment in 2021 from 9.2% in 2001. Even more pronounced are the gains from education and health services to 15.3% in 2021 from 12.2% in 2001.

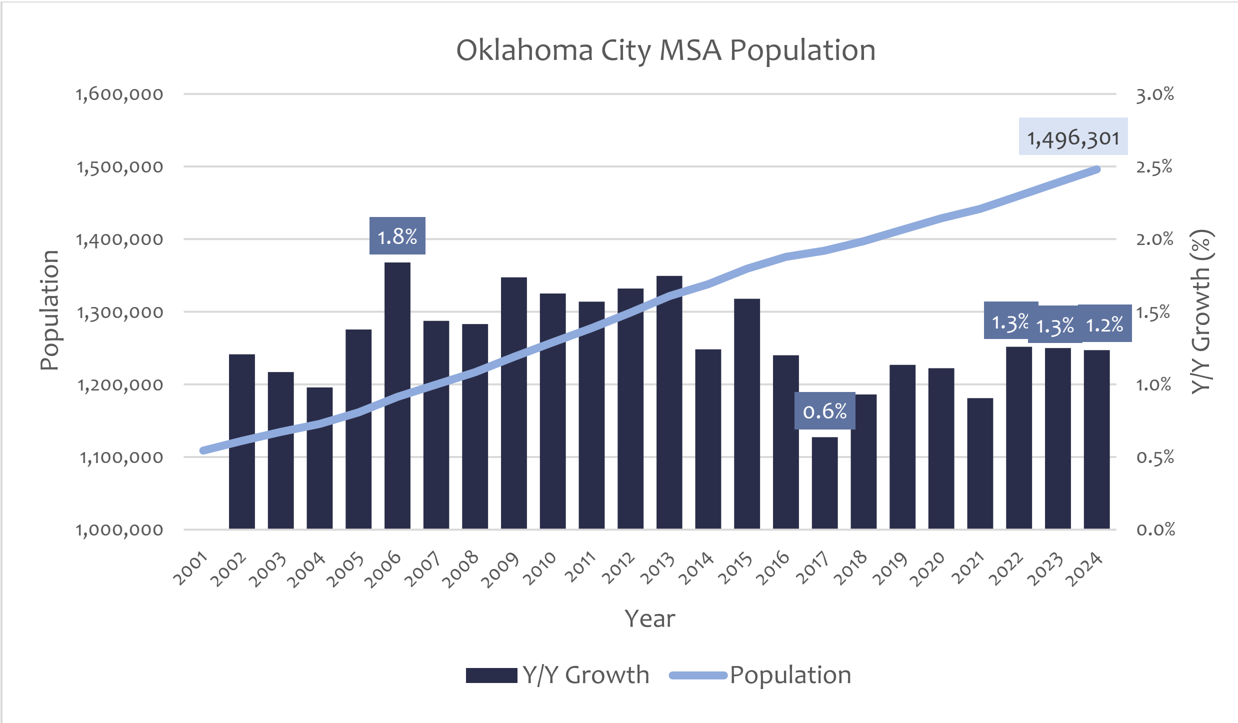


Figure 5.4 Oklahoma City MSA Population

Oklahoma City's population growth was strongest in the heart of the shale revolution period, with annual growth near or above 1.5% per year for ten straight years. Population growth slowed considerably as the energy sector transitioned to slower growth and eventually outright contraction in 2015 and 2016. Population growth is expected to regain strength as a stronger local economy combines with the natural forces of geography to support the growth of 1.3% in 2023 and 1.2% in 2024.

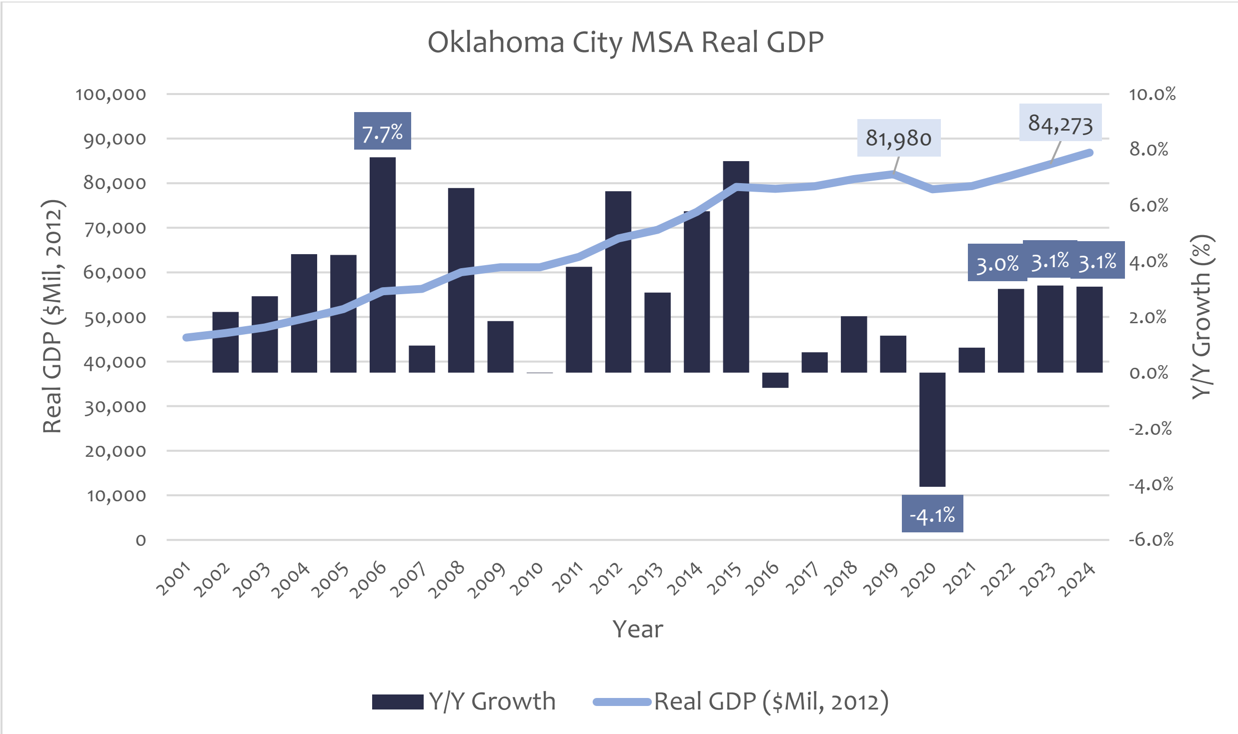


Figure 5.5 Oklahoma City MSA Real GDP

Consistent with our national expectations, the baseline expectation for the year ahead is slow growth, or what Moody's Analytics recently called a slow recession. In our current forecast, the Oklahoma City economy grows at about half the rate typically expected in strong economic growth years, with metro real GDP growing at 3.1% in 2023 and again in 2024. In this scenario, growth slows considerably (as is widely expected), but an outright recession is avoided. It is worth emphasizing again that while this may be the baseline case currently in the data, we see considerable downside risk and encourage all readers to adjust expectations accordingly as coming data releases dictate.

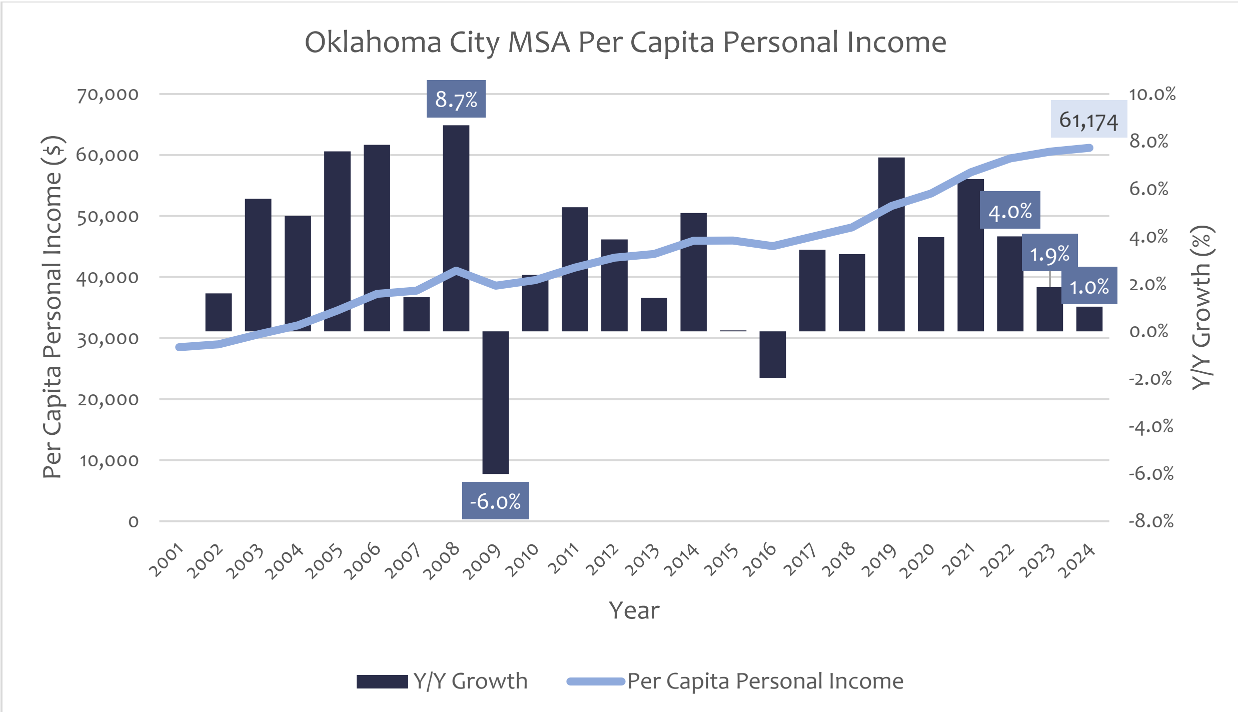


Figure 5.6 Oklahoma City MSA Per Capita Personal Income

Oklahoma City's per capita personal income was strongly supported by pandemic relief policies that no longer fuel household income gains. Per capita income growth will slow in 2023 to 1.9% and 1.0% in 2024 as current labor market strength carries into 2023 before yielding to broader economic weakness by the end of the year.

The labor market's strength will carry into 2023 even as households begin to shift consumer behavior. In time, the labor market will yield to a slowing economy, the pace of job gains will slow, and the unemployment rate will rise. We don't expect either to be particularly pronounced. Headline nonfarm employment will grow in the fourth quarter of 2022 at a pace of 3.4% above the level a year ago. The pace will slow through 2023 as the metro ends the year with 691 thousand nonfarm jobs or a 2% gain over the end of 2022. We expect 2024 to be a year of emergence from the weakness of 2023, and the timing of that emergence will determine the extent of job gains.

OKLAHOMA CITY EMPLOYMENT OUTLOOK

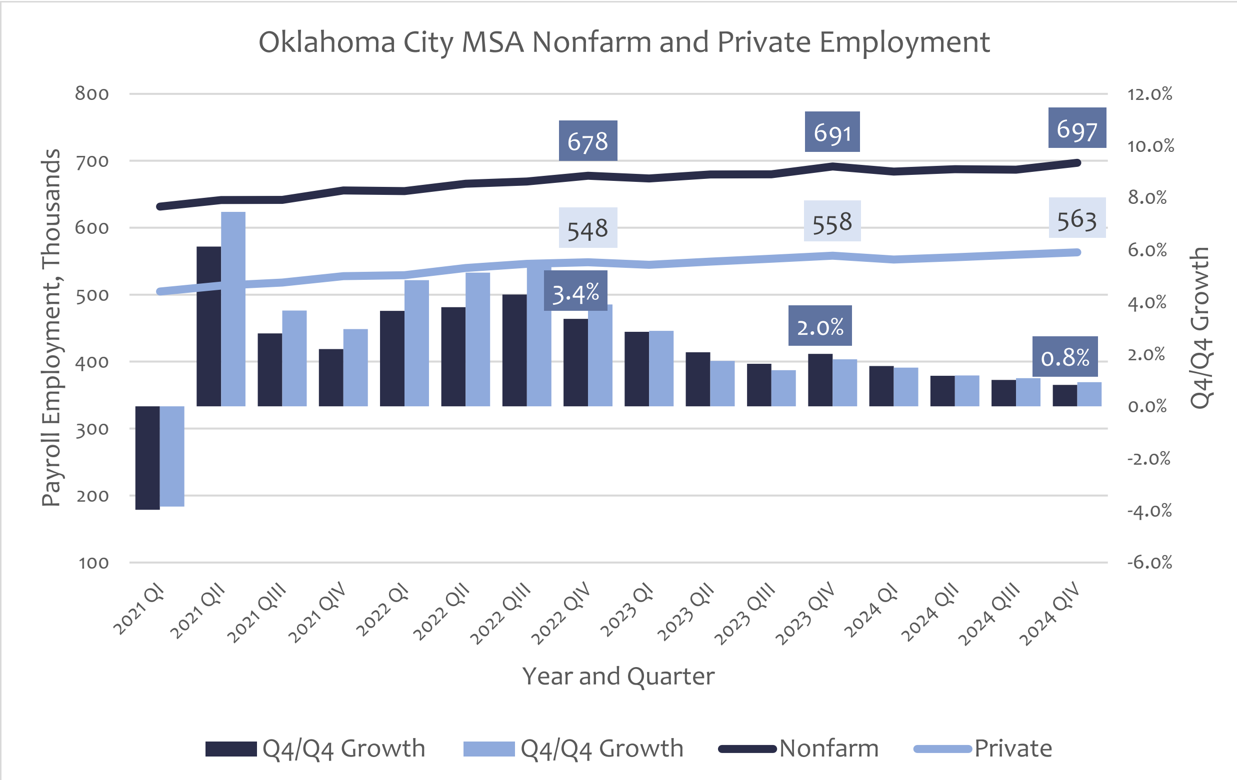


Figure 6.1 Oklahoma City MSA Nonfarm and Private Employment

Oklahoma City's economic identity has shifted away from manufacturing over the last twenty-five years. Employment in the industry peaked at more than 55,000 jobs in 1999.

Firm exits and a persistent shift to capital instead of labor in manufacturing have decreased the city's reliance on manufacturing. Before the onset of the pandemic, manufacturing employment was 34,500. As the pandemic set in, manufacturing employment declined as production was disrupted. Oklahoma City is on pace to regain its pre-pandemic level of manufacturing employment by the end of 2022, with 4.7% growth from the year before.

Current projections see 0.8% gains in 2023, with considerable downside risk to that expectation. We expect it to be a challenge to add to this level and falling consumption and economic weakness will move into the economy in 2023. In the longer run, we see considerable opportunities in the sector as onshoring supply chain activities from abroad will increase demand from the domestic sector.

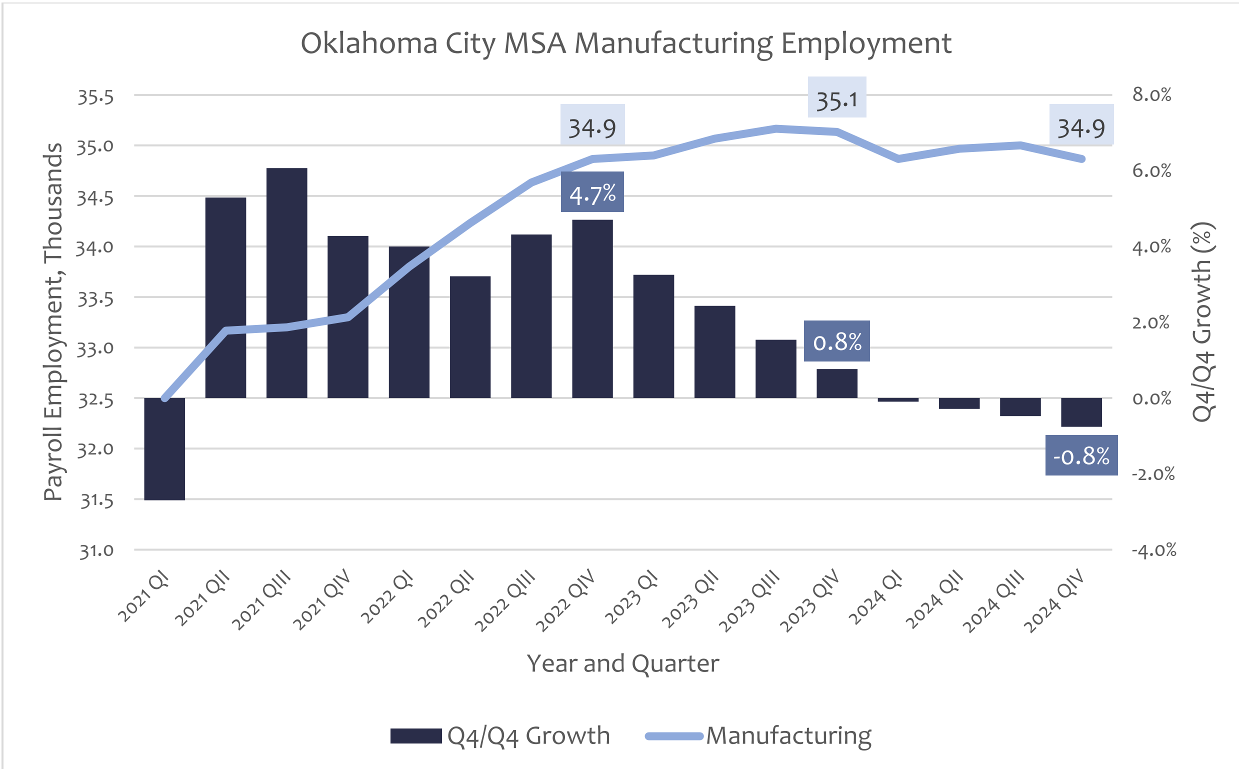


Figure 6.2 Oklahoma City MSA Manufacturing Employment

While strength will be more challenging in 2023, it will most likely be found in the city's services sectors. Population gains, in-migration, and income gains in the recovery of the pandemic will support demand for healthcare services even as the economy weakens. Discretionary healthcare consumption may yield economic weakness, but overall, we expect gains in the sector and a continuing challenge for providers in finding skilled applicants for job postings. Healthcare employment will end in 2022, up 5.5% from the year-end of 2021. While the pace of growth will slow through 2023, it will remain relatively strong, with 2.6% growth in 2023 and 2.5% growth in 2024 on a Q4/Q4 basis.

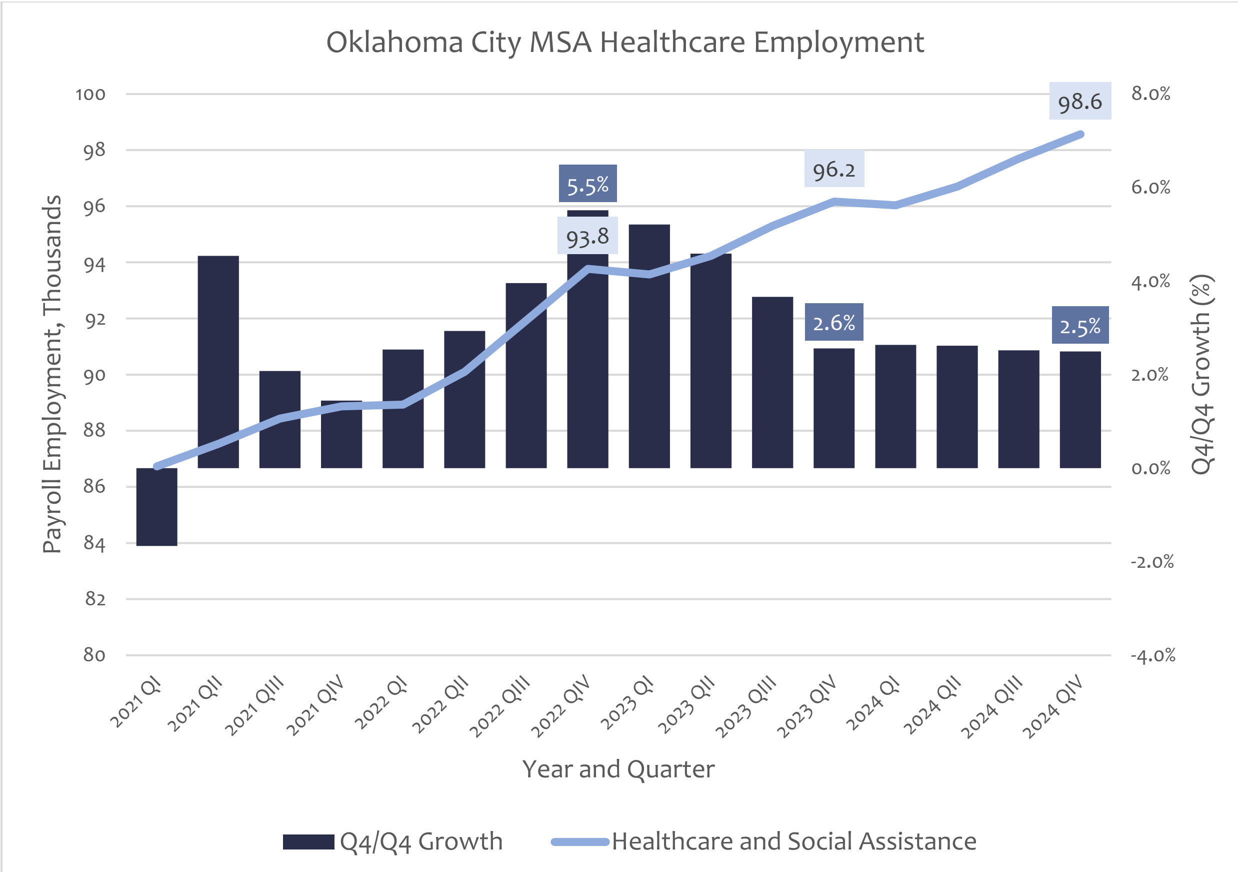


Figure 6.3 Oklahoma City MSA Healthcare Employment

In contrast to the healthcare sector, we do not expect the leisure and hospitality sector to carry 2022 strength into the outlook period. Households emerged from the pandemic flush with cash and balance sheets supported by wealth gains. Combined with a relative lack of leisure opportunities during the pandemic, pent-up demand was released, and firms scrambled to staff back up to meet demand. Oklahoma City leisure and hospitality employment will post 3.9% gains in 2022 over the fourth quarter of 2021.

These gains will nearly return employment in the sector to pre-pandemic levels. Much of the industry's spending is discretionary and will be challenging to support in 2023. We anticipate a difficult year, particularly in the food services and recreation categories, in 2023, leading to a mostly flat year in 2023.

If the economy can regain its footing heading into 2024, we expect upside gains over the flat growth scenario presented in the outlook. Like the healthcare sector, leisure and hospitality services will grow with population and income growth.

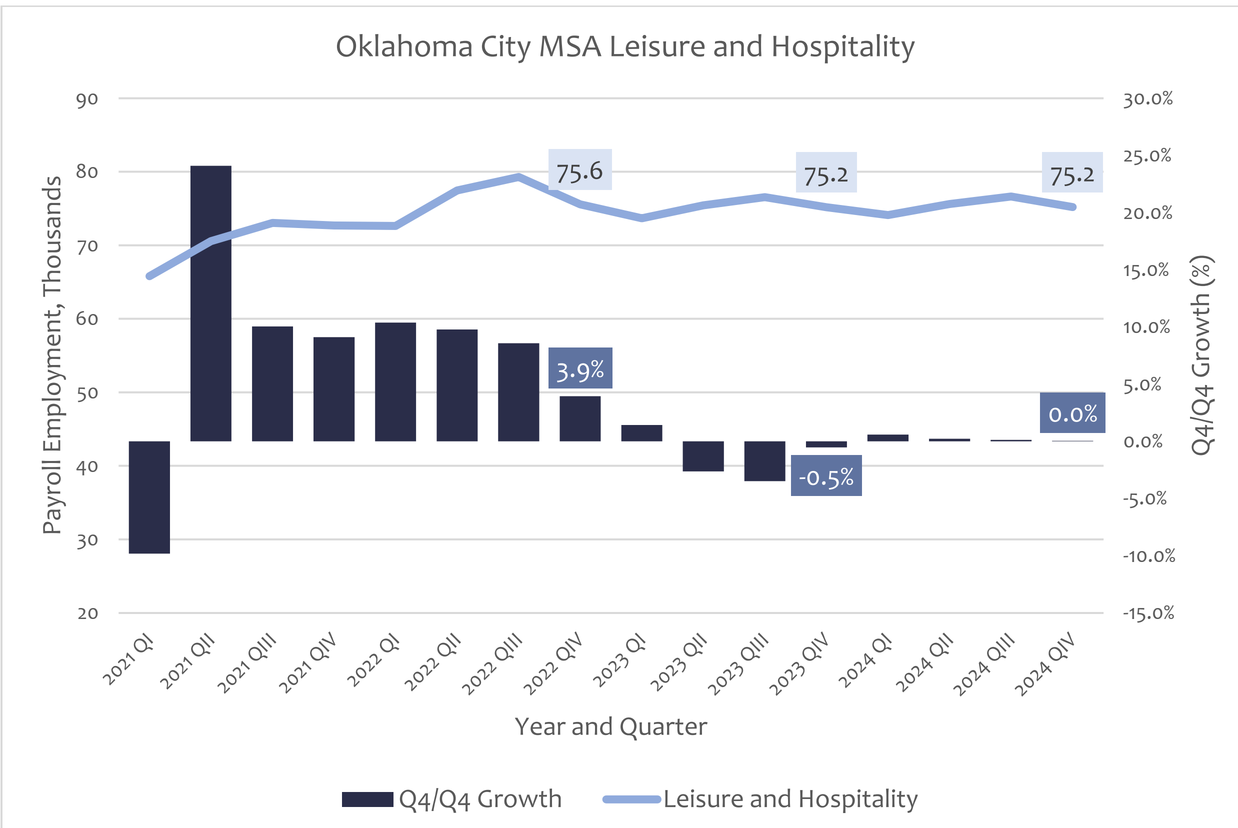


Figure 6.4 Oklahoma City MSA Leisure and Hospitality

Oklahoma City trade, transportation, and utilities employment have experienced strong growth in recent years, particularly from the utilities and wholesale trade categories. Strength in wholesale trade has subsided, while strength in transportation and utilities will carry through 2022 and into 2023. The largest category remains retail employment which will follow usual seasonal patterns but with lower peaks in 2023 as households constrain spending in the face of persistent inflation and falling savings. We expect strong growth in 2022 of 3.9% to soften in 2023 with Q4/Q4 growth of 1.2%. Record credit card debt and much higher interest costs will limit consumers' ability to support consumption through credit.

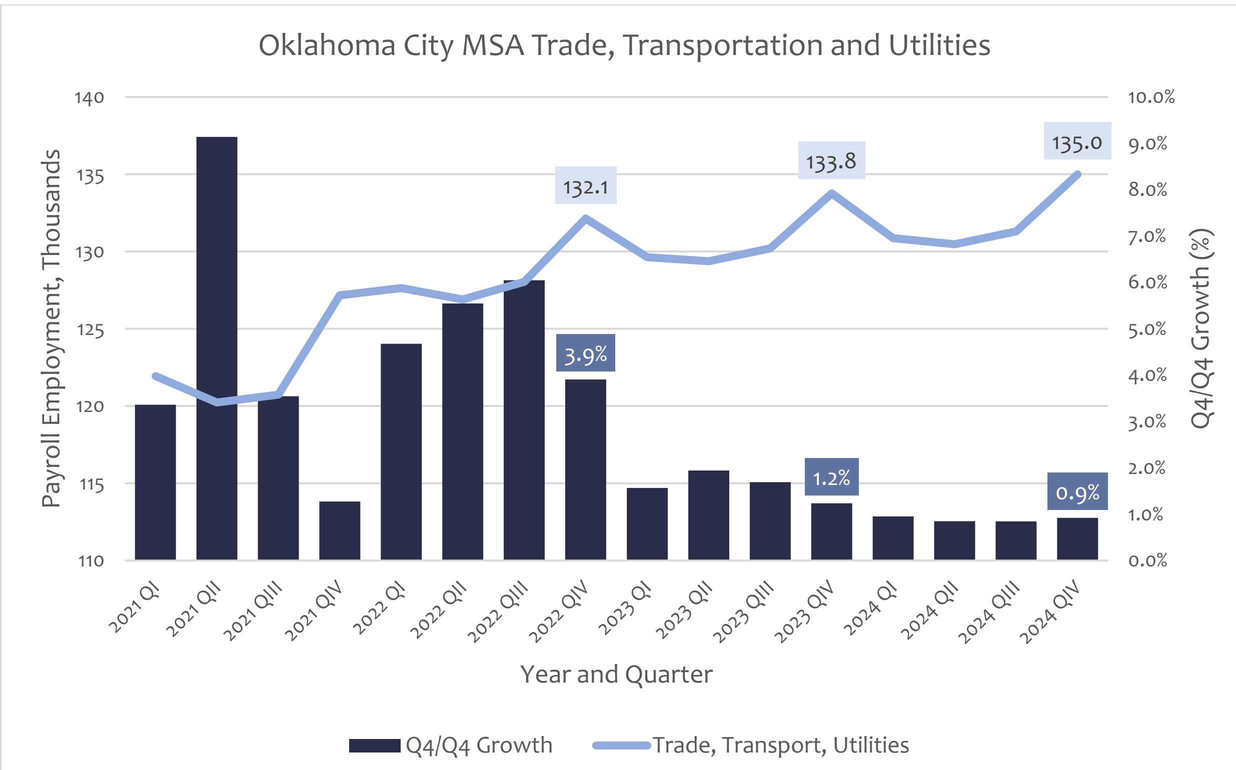


Figure 6.5 Oklahoma City MSA Trade, Transportation, and Utilities

OKLAHOMA CITY FISCAL OUTLOOK

Consider the following excerpts from the February 2022 outlook summary:

- *There is no imminent recession or economic cliff; growth is slowing and downside risks forming, so both may yet be on the 2023 horizon*
- *Expect a strong start to the year and watch national policy and trends for a sense of what comes next; we expect growth to slow considerably through the end of the year and into 2023*
- *There is a reasonable chance that the current path, if uninterrupted, leads to a mild recession in 2023*
- *Sales tax ends FY 2022 strong; unless interrupted FY 2023 is more likely to see its strength in the first half of the year*

The tenor of the forecast proved remarkably prescient for the year ahead. And yet the sales tax forecast woefully underestimated the ability of households to lean on savings and credit to maintain consumption. Rather than spending failing to fully keep pace with inflation, nominal spending exceeded inflation through much of the year. FY 2022 did indeed end the year in strength and FY 2023 will see its strength in the first half of the year. What is surprising is the magnitude of that strength. The 2022 budget workshop anchored expectations of growth between 2.5% and 4.25% for the first half of FY 2023 where growth of 9.6% was realized. While a mild 2023 recession may indeed be on the horizon, the slowdown in the second half of the fiscal year is unlikely to erase the strong gains of the first half.

Household ability to maintain spending is being squeezed by record credit card balances, higher interest payment, rising delinquencies, and falling savings. Nationally, consumers abruptly curbed spending habits in November of last year and through the holiday sales season. There is some evidence that this slowdown is already in the Oklahoma City data.

Oklahoma City sales tax growth is decomposed into major 2-digit NAICS categories. Growth in the retail sector has already fallen below total growth. Instead, headline growth is being pulled higher by strong growth in hotels and restaurants (17.2% of Q2 total collections), wholesale (11.7% of Q2 total), and utilities (7.6% of Q2 total) while growth in retail, manufacturing, and services is below headline growth. The expectation of a slower end to the fiscal year is supported by a belief that retail spending remains constrained while the strength in hotels and restaurants and utilities eases through the end of the fiscal year.

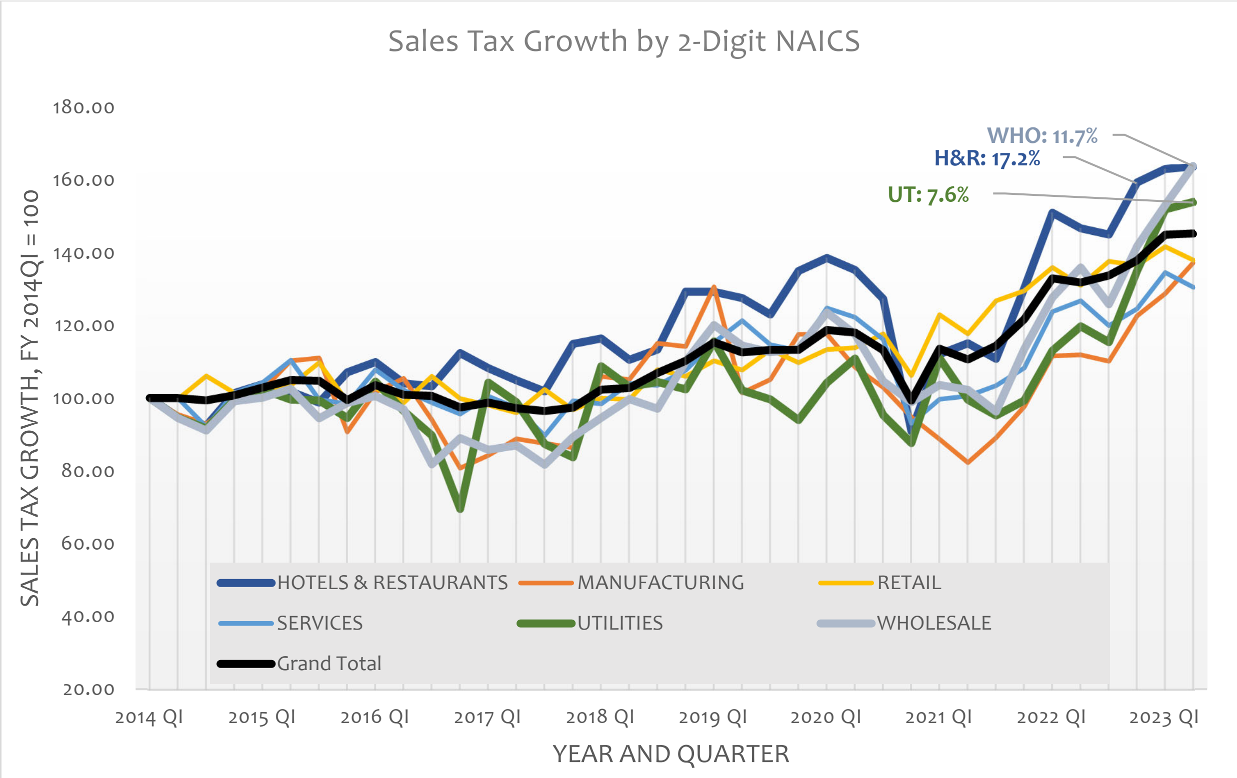


Figure 7.1 Sales Tax Growth by 2-Digit NAICS

Creating an expectation for the coming fiscal year is complicated by the reality that we are transitioning between one economic reality and another. The reality we are coming from is one of unprecedented and policy fueled strength. The reality we are heading into is less clear. If we forecast forward from the December check and the end of the second quarter we are essentially forecasting forward from the economic reality of mid-October. Just a few short months, however, and the current economic reality feels very different from that of the fall.

As an exercise to establish a reasonable budget range for FY 2023 we start by fitting a model to the data through December. This model relies only on economic data through mid-October. The economic reality now is very different but fitting a model through the fall of 2022 is instructive. The model below fits the historical series well with the solid line representing actual collections and the dashed line the one-quarter ahead forecast. Of particular interest is how well the model fits the two-most recent quarters. If we simply extend this model into the future, we get a prediction of unabated growth.

In the unabated growth model historical strength is extended into future periods with FY 2023 growth of 10.0% followed by FY 2024 growth of 9.9.%. This model is decidedly unrealistic. It ignores the economic reality of recent months and the information included in the January sales tax check.

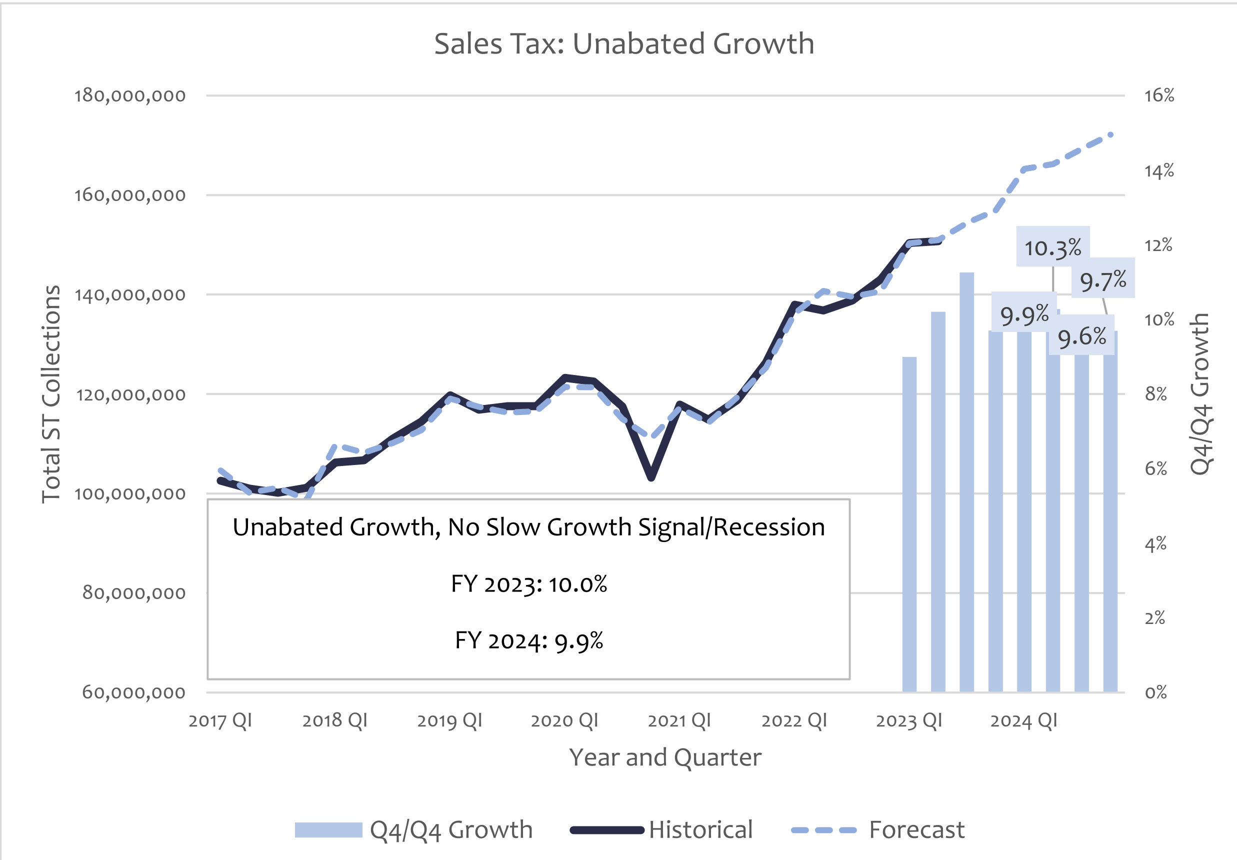


Figure 7.2 Sales Tax: Unabated Growth

We build upon the features of the model above but impose on the specification a slowdown in the pace of growth in the third quarter of FY 2023 and include in the model economic data from the outlook that anticipates slowing economic activity. In this model we do not specify the duration of the slowdown, just signal that it is happening through the inclusion of presumed growth in FY 2023 QIII and the economic data. The result is a model that reflects a slow growth soft landing.

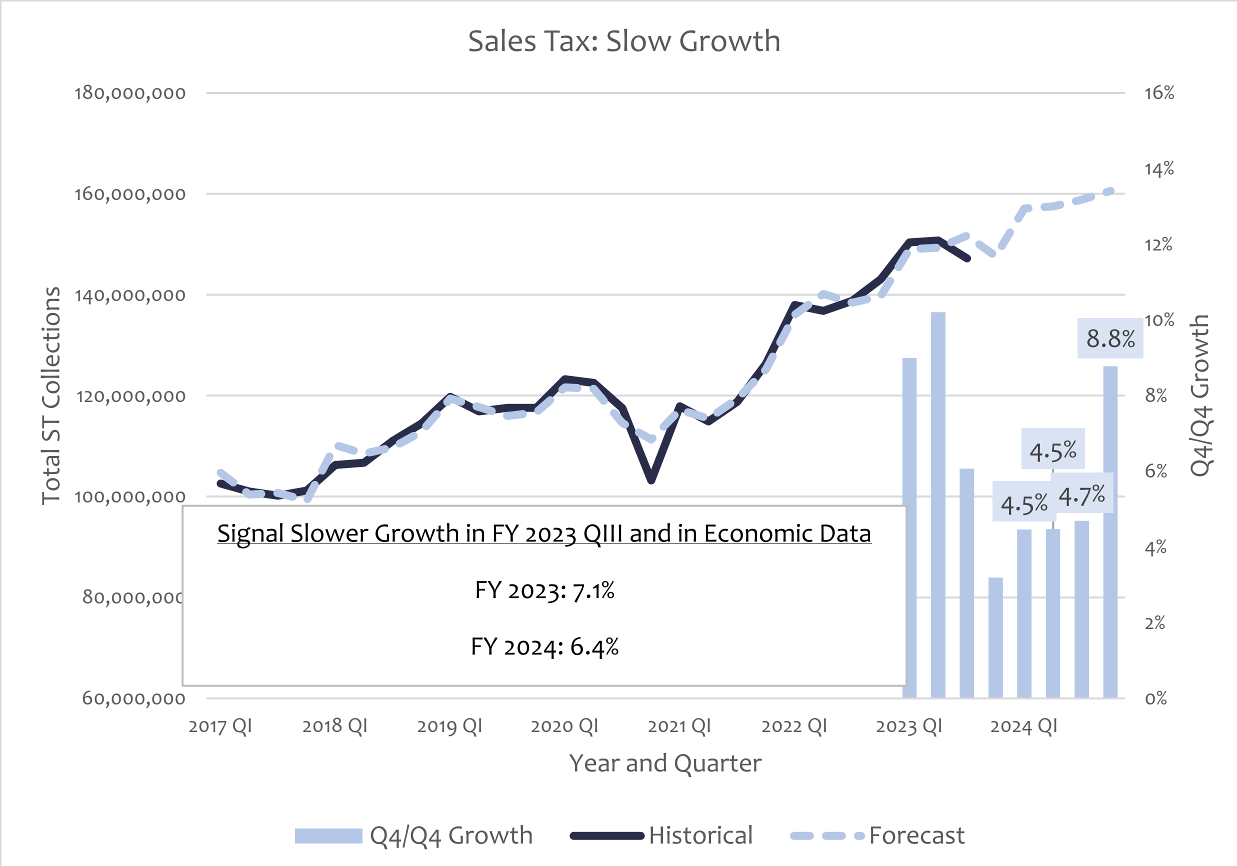


Figure 7.3 Sales Tax: Slow Growth

In this model, FY 2023 growth comes in at 7.1% and FY 2024 growth at 6.4%. This model best reflects a goldilocks outcome where policy is just right – strong enough to constrain inflation but not so strong that it disrupts labor markets. This forecast is a useful upper bound. The FY 2024 growth in particular relies on a strong FY 2024 QIV that may overstate the possibilities even under this scenario.

As a final exercise, we start with the best features of the original model but impose slower growth on FY 2023 QIII and a mild recession from FY 2023 QIV to FY 2024 QIII. This model is a scenario exercise as an outright recession is not yet in the data and should not be taken as inevitable. This model does specify the duration of the slowdown to the recessionary quarters and implicitly assumes a Fed pivot to easing by the middle of 2024.

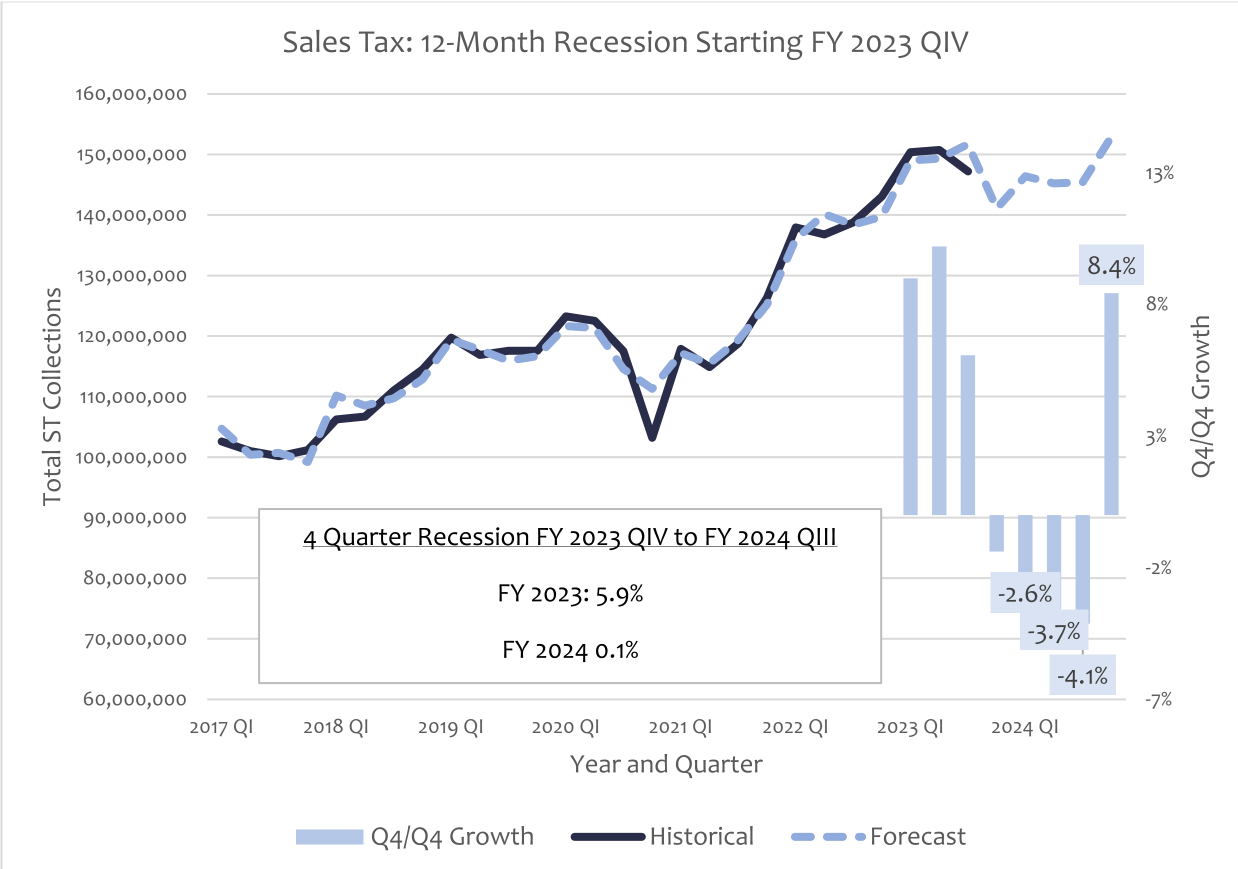


Figure 7.4 Sales Tax: 12-Month Recession Starting FY 2023 QIV

In this model FY 2023 growth is 5.9% and FY 2024 growth is 0.1%, again relying heavily on FY 2024 QIV strength. A budget for FY 2024 likely lies somewhere in the middle. While a recession is certainly possible, it is not yet in the data. Rather than budgeting for a recession, we encourage planning to deal with a recession should it materialize.

As FY 2023 concludes we continue to expect growth to slow with year-end growth below the 9.6% pace set in the first half of the year. The months ahead will reveal the extent of the slowdown, but the range presented here of 5.9% to 7.1% seems reasonable. Strength may yet linger and move towards the top of that range, or we may be moving more abruptly into weakness with a move to the lower end of that range. FY 2024 will depend heavily on the ability of policy to orchestrate a soft landing or ensure no worse than a mild recession.

CONCLUSION

It is an understatement to say the last few years have been economically unpredictable. The onset of the pandemic forced businesses to abruptly stall operations and consumers to seek safety at home. An abrupt shift towards goods consumption stressed already challenged supply chains. Government policies injected trillions of dollars into the economy while monetary policy further subsidized risk through quantitative easing. The result was a rise in equities, real estate, and other risk asset prices far beyond what would have been warranted by underlying fundamentals. As the economy reopened consumers shifted again abruptly towards services consumption and service providers across industries scrambled to staff up to pre-pandemic levels. Consumers unleashed a policy-fueled wave of consumption that exaggerated all of the temporary and transitory inflation pressures. Suddenly, inflation was persistent and troubling, demanding the hawkish attention of a dovish Fed. The Fed responded by communicating intentions to constrain inflation and raised short-term interest rates repeatedly in 75 bps chunks.

As we enter 2023 household balance sheets are shedding the strength of previous years, the pace at which prices are increasing has peaked and is moderating but remains considerably higher than policy's 2% target, and bond markets are doubting the Fed's hawkish resolve. The best-case scenario increasingly appears to be a year of very slow global economic progress and there is little reason to expect Oklahoma to be a counter-cyclical outlier to global economic forces.

Since production on this report began, both JP Morgan and Bank of America have announced a mild recession as their base, or central, case for 2023. Note that an outright recession is not yet in the data. What is in the data is the reality of a slowing economy, and this reality is reflected throughout the forecast presented. In some ways, the outlook shared here reflects a best-case scenario of slow economic progress in 2023. We expect a difficult path in securing even slow economic growth in much of 2023 and instead expect a mild recession that may offer a surprise in its depth and duration. We also doubt the market's expectations of a sharp Fed pivot to lower interest rates in the second half of the year.

Consider this quote from the 2022 economic outlook:

> *To the extent that history can be a useful guide in unprecedented times, the baseline expectation is that 2022 will be a year of transition with the real excitement deferred to 2023. The baseline outlook presented in the graphics below is consistent with this expectation. There is sufficient residual strength in household balance sheets and fiscal policy support not yet in the system that even if monetary policy begins to change course in 2022, economic recovery should press forward. Growth will slow, labor markets will continue to inch towards pre-pandemic levels, inflation will persist above its 2% target, and interest rates will generally move higher with adjustments to monetary policy. (Greater Oklahoma City Economic Outlook 2022, emphasis added)*

The year behind conformed to expectations as the recovery indeed pressed forward, labor markets did inch toward pre-pandemic levels, inflation persisted, and interest rates moved higher with a shift in monetary policy. Unfortunately, the long-predicted year of real excitement is upon us.

APPENDIX A: OKLAHOMA OUTLOOK TABLES

Oklahoma Income, Population, and GDP Outlook												
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023(f)	2024(f)
Real GDP ($Mil, 2012)	69,543	73,572	79,155	78,725	79,300	80,906	81,980	78,626	79,334	81,717	84,273	86,873
Y/Y Growth	2.9%	5.8%	7.6%	-0.5%	0.7%	2.0%	1.3%	-4.1%	0.9%	3.0%	3.1%	3.1%
Personal Income	57,847	61,484	62,485	61,992	64,530	67,248	72,993	76,730	82,390	86,765	89,487	91,534
Y/Y Growth	3.2%	6.3%	1.6%	-0.8%	4.1%	4.2%	8.5%	5.1%	7.4%	5.3%	3.1%	2.3%
Population	1,321,527	1,337,930	1,359,199	1,375,508	1,384,267	1,397,154	1,413,004	1,428,709	1,441,647	1,459,787	1,478,035	1,496,301
Y/Y Growth	1.7%	1.2%	1.6%	1.2%	0.6%	0.9%	1.1%	1.1%	0.9%	1.3%	1.3%	1.2%
Per Capita Personal Income	43,773	45,955	45,972	45,068	46,617	48,132	51,658	53,706	57,150	59,437	60,544	61,174
Y/Y Growth	1.4%	5.0%	0.0%	-2.0%	3.4%	3.2%	7.3%	4.0%	6.4%	4.0%	1.9%	1.0%
Total Employment (FT+PT)	832,875	846,322	857,636	862,819	868,919	883,677	886,142	870,863	888,577	898,296	911,126	924,295
Y/Y Growth	2.3%	1.6%	1.3%	0.6%	0.7%	1.7%	0.3%	-1.7%	2.0%	1.1%	1.4%	1.4%
Wage & Salary Employment (FT + PT)	633,781	643,069	649,512	645,039	649,834	663,512	674,513	644,680	657,748	677,916	690,510	693,096
Y/Y Growth	1.8%	1.5%	1.0%	-0.7%	0.7%	2.1%	1.7%	-4.4%	2.0%	3.1%	1.9%	0.4%
Nonfarm Employment (FT + PT)	822,699	836,311	848,163	853,129	859,375	874,363	876,555	861,355	879,145	889,153	902,160	915,466
Y/Y Growth	2.3%	1.7%	1.4%	0.6%	0.7%	1.7%	0.3%	-1.7%	2.1%	1.1%	1.5%	1.5%
Real GDP per Capita	52,623	54,990	58,237	57,234	57,287	57,908	58,018	55,033	55,030	55,979	57,017	58,059
Y/Y Growth	1.1%	4.5%	5.9%	-1.7%	0.1%	1.1%	0.2%	-5.1%	0.0%	1.7%	1.9%	1.8%

Oklahoma Employment Outlook by Sector

Industry/Quarter	2021 QI	2021 QII	2021 QIII	2021 QIV	2022 QI	2022 QII	2022 QIII	2022 QIV	2023 QI (f)	2023 QII (f)	2023 QIII (f)	2023 QIV (f)	2024 QI (f)	2024 QII (f)	2024 QIII (f)	2024 QIV (f)
Nonfarm	1,619.5	1,644.5	1,638.6	1,667.5	1,657.5	1,685.7	1,687.2	1,708.9	1,688.3	1,702.0	1,701.6	1,728.1	1,707.7	1,720.6	1,719.5	1,745.3
Q4/Q4 Growth (%)	-4.1%	4.7%	2.0%	1.4%	2.3%	2.5%	3.0%	2.5%	1.9%	1.0%	0.8%	1.1%	1.2%	1.1%	1.1%	1.0%
Private	1,274.7	1,298.3	1,302.1	1,314.6	1,308.3	1,334.5	1,346.2	1,353.0	1,336.0	1,350.0	1,361.1	1,370.9	1,354.5	1,368.0	1,378.6	1,387.7
Q4/Q4 Growth (%)	-4.3%	5.6%	2.5%	1.6%	2.6%	2.8%	3.4%	2.9%	2.1%	1.2%	1.1%	1.3%	1.4%	1.3%	1.3%	1.2%
Goods Producing	231.2	235.6	233.8	233.6	236.2	242.1	244.9	243.8	242.6	246.0	249.3	250.7	249.6	252.9	255.9	257.0
Q4/Q4 Growth (%)	-10.3%	-2.2%	-0.5%	0.2%	2.2%	2.8%	4.7%	4.4%	2.7%	1.6%	1.8%	2.8%	2.9%	2.8%	2.7%	2.5%
Service Providing	1,388.3	1,408.9	1,404.8	1,433.9	1,421.3	1,443.6	1,442.4	1,465.1	1,445.7	1,456.1	1,452.3	1,477.4	1,458.1	1,467.8	1,463.6	1,488.3
Q4/Q4 Growth (%)	-3.0%	6.0%	2.4%	1.6%	2.4%	2.5%	2.7%	2.2%	1.7%	0.9%	0.7%	0.8%	0.9%	0.8%	0.8%	0.7%
Manufacturing	128.6	129.1	128.6	129.2	131.3	132.6	133.5	134.0	134.8	135.3	135.8	136.5	136.8	136.8	137.0	137.3
Q4/Q4 Growth (%)	-7.5%	-0.3%	0.2%	0.6%	2.1%	2.7%	3.8%	3.7%	2.6%	2.0%	1.7%	1.9%	1.5%	1.1%	0.9%	0.6%
Construction	75.7	79.2	77.6	76.4	75.5	78.7	79.8	79.0	77.8	80.6	82.2	82.1	80.1	82.3	83.6	83.3
Q4/Q4 Growth (%)	-5.8%	-0.1%	-0.9%	-1.5%	-0.2%	-0.5%	2.7%	3.5%	3.0%	2.3%	3.0%	3.9%	3.0%	2.2%	1.8%	1.5%
Mining and Logging	26.9	27.3	27.5	28.1	29.4	30.7	31.6	30.8	30.0	30.1	31.3	32.1	32.7	33.7	35.3	36.4
Q4/Q4 Growth (%)	-29.8%	-15.0%	-2.2%	3.4%	9.0%	12.6%	14.9%	9.5%	2.0%	-2.0%	-1.1%	4.4%	9.2%	11.9%	12.8%	13.2%
Trade, Transportation, and Utilities	309.5	309.1	309.8	321.1	322.7	322.0	323.0	330.3	320.7	320.8	321.9	329.9	322.1	323.1	324.7	333.1
Q4/Q4 Growth (%)	2.0%	6.7%	2.6%	0.0%	4.3%	4.2%	4.3%	2.9%	-0.6%	-0.4%	-0.4%	-0.1%	0.4%	0.7%	0.9%	1.0%
Wholesale Trade	53.2	54.0	54.1	54.2	54.8	56.3	58.2	57.6	57.5	57.8	57.7	57.7	57.1	57.3	57.3	57.5
Q4/Q4 Growth (%)	-7.7%	-0.9%	0.6%	0.7%	2.9%	4.4%	7.6%	6.2%	4.9%	2.5%	-1.0%	0.2%	-0.6%	-0.8%	-0.6%	-0.5%
Retail Trade	178.1	180.4	180.6	186.1	186.5	185.0	184.1	190.2	183.7	184.0	184.2	188.9	183.3	184.2	184.7	189.6
Q4/Q4 Growth (%)	1.0%	7.6%	2.2%	0.7%	4.8%	2.5%	1.9%	2.2%	-1.5%	-0.6%	0.0%	-0.6%	-0.2%	0.1%	0.3%	0.4%
Transportation, Warehousing, and Utilities	78.2	74.7	75.0	80.7	81.4	80.7	80.7	82.5	79.6	79.0	80.0	83.3	81.7	81.6	82.7	86.0
Q4/Q4 Growth (%)	12.4%	10.8%	5.0%	-1.9%	4.1%	8.0%	7.5%	2.2%	-2.3%	-2.0%	-0.8%	0.9%	2.6%	3.2%	3.3%	3.3%
Information	17.5	17.9	17.8	18.0	17.2	17.0	17.0	17.5	17.3	17.3	17.1	17.2	16.9	16.9	16.7	16.8
Q4/Q4 Growth (%)	-11.3%	-0.7%	1.1%	2.3%	-1.7%	-5.0%	-4.3%	-2.8%	0.4%	1.4%	0.6%	-1.7%	-2.1%	-2.3%	-2.3%	-2.5%

Oklahoma Employment Outlook by Sector																
Industry/Quarter	2021 QI	2021 QII	2021 QIII	2021 QIV	2022 QI	2022 QII	2022 QIII	2022 QIV	2023 QI (f)	2023 QII (f)	2023 QIII (f)	2023 QIV (f)	2024 QI (f)	2024 QII (f)	2024 QIII (f)	2024 QIV (f)
Financial Activity	76.9	77.8	78.4	79.9	80.2	81.1	82.5	82.2	81.7	82.3	82.7	82.9	82.4	82.9	83.3	83.6
Q4/Q4 Growth (%)	-1.2%	1.9%	2.2%	3.6%	4.2%	4.2%	5.2%	2.8%	1.9%	1.5%	0.2%	0.9%	0.9%	0.8%	0.8%	0.8%
Professional and Business Services	184.4	189.8	191.3	193.3	190.7	197.5	197.5	196.2	194.3	196.9	198.8	199.3	196.4	198.6	200.5	200.9
Q4/Q4 Growth (%)	-4.4%	6.4%	5.2%	4.2%	3.4%	4.1%	3.3%	1.5%	1.9%	-0.3%	0.6%	1.6%	1.0%	0.9%	0.9%	0.8%
Scientific Services	74.0	74.7	74.9	74.5	73.5	74.6	75.3	76.2	77.0	76.9	76.9	77.7	78.2	78.0	78.0	78.7
Q4/Q4 Growth (%)	-2.2%	2.8%	3.9%	2.4%	-0.7%	-0.1%	0.4%	2.2%	4.8%	3.0%	2.2%	2.0%	1.6%	1.5%	1.4%	1.3%
Management Services	20.7	21.1	21.3	21.6	21.6	21.8	21.9	22.1	22.2	22.3	22.4	22.5	22.6	22.7	22.8	22.9
Q4/Q4 Growth (%)	-4.7%	3.8%	7.7%	4.7%	4.2%	3.0%	2.5%	2.5%	2.6%	2.3%	2.3%	1.8%	2.1%	1.8%	1.9%	1.8%
Administrative Services	89.7	94.0	95.0	97.2	95.6	101.1	100.4	97.9	95.2	97.7	99.5	99.1	95.5	97.9	99.7	99.2
Q4/Q4 Growth (%)	-6.1%	9.9%	5.7%	5.5%	6.6%	7.6%	5.6%	0.8%	-0.4%	-3.3%	-0.9%	1.2%	0.3%	0.2%	0.2%	0.1%
Education & Health	236.8	236.9	236.6	237.1	231.9	234.7	238.0	243.5	241.1	241.3	241.9	244.4	242.2	242.5	243.2	245.7
Q4/Q4 Growth (%)	-2.2%	3.7%	1.0%	-0.5%	-2.1%	-0.9%	0.6%	2.7%	4.0%	2.8%	1.6%	0.4%	0.5%	0.5%	0.5%	0.5%
Healthcare	216.4	216.3	217.3	216.5	212.0	214.9	218.2	222.2	220.4	220.0	222.3	223.2	221.5	222.0	222.6	224.9
Q4/Q4 Growth (%)	-2.3%	3.2%	1.0%	-0.5%	-2.0%	-0.6%	0.4%	2.6%	4.0%	2.4%	1.9%	0.4%	0.5%	0.9%	0.1%	0.8%
Leisure and Hospitality	155.7	167.2	170.3	167.0	166.0	176.3	179.6	175.4	173.0	179.0	181.8	178.6	176.9	182.4	184.9	181.5
Q4/Q4 Growth (%)	-8.4%	20.7%	7.0%	5.6%	6.7%	5.5%	5.4%	5.0%	4.2%	1.6%	1.2%	1.8%	2.2%	1.9%	1.7%	1.6%
Other Services	62.7	64.0	64.1	64.6	63.4	63.8	63.6	64.1	65.3	66.5	67.7	67.8	68.0	68.6	69.4	69.2
Q4/Q4 Growth (%)	-8.0%	8.8%	-0.3%	2.6%	1.1%	-0.3%	-0.7%	-0.8%	2.9%	4.3%	6.5%	5.8%	4.2%	3.2%	2.4%	2.1%
Government	344.7	346.2	336.5	352.9	349.1	351.2	341.0	355.9	352.3	352.0	340.4	357.2	353.2	352.7	340.9	357.6
Q4/Q4 Growth (%)	-3.5%	1.5%	0.1%	0.8%	1.3%	1.4%	1.3%	0.9%	0.9%	0.2%	-0.2%	0.3%	0.3%	0.2%	0.1%	0.1%
Federal Government	50.6	50.9	51.0	51.2	50.8	51.0	51.2	51.6	51.3	51.6	51.7	51.5	51.4	51.8	52.0	51.8
Q4/Q4 Growth (%)	0.7%	0.5%	-3.4%	1.3%	0.3%	0.3%	0.5%	0.8%	1.0%	1.2%	0.9%	-0.2%	0.2%	0.5%	0.5%	0.6%
State Government	79.9	79.7	76.2	83.8	80.3	79.4	74.6	81.6	78.5	77.9	73.9	81.1	77.8	77.3	73.2	80.4
Q4/Q4 Growth (%)	-1.4%	1.8%	0.0%	0.6%	0.5%	-0.4%	-2.1%	-2.5%	-2.2%	-1.9%	-0.9%	-0.6%	-0.8%	-0.8%	-1.0%	-0.9%
Local Government	214.2	215.6	209.3	217.9	218.1	220.8	215.2	222.7	222.5	222.5	214.8	224.5	224.0	223.6	215.7	225.4
Q4/Q4 Growth (%)	-5.1%	1.6%	1.1%	0.7%	1.8%	2.4%	2.8%	2.2%	2.0%	0.8%	-0.2%	0.8%	0.6%	0.5%	0.4%	0.4%

APPENDIX B: OKLAHOMA CITY OUTLOOK TABLES

Oklahoma City MSA Income, Population, and GDP Outlook

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023(f)	2024(f)
Real GDP ($Mil, 2012)	69,543	73,572	79,155	78,725	79,300	80,906	81,980	78,626	79,334	81,717	84,273	86,873
Y/Y Growth	2.9%	5.8%	7.6%	-0.5%	0.7%	2.0%	1.3%	-4.1%	0.9%	3.0%	3.1%	3.1%
Personal Income	57,847	61,484	62,485	61,992	64,530	67,248	72,993	76,730	82,390	86,765	89,487	91,534
Y/Y Growth	3.2%	6.3%	1.6%	-0.8%	4.1%	4.2%	8.5%	5.1%	7.4%	5.3%	3.1%	2.3%
Population	1,321,527	1,337,930	1,359,199	1,375,508	1,384,267	1,397,154	1,413,004	1,428,709	1,441,647	1,459,787	1,478,035	1,496,301
Y/Y Growth	1.7%	1.2%	1.6%	1.2%	0.6%	0.9%	1.1%	1.1%	0.9%	1.3%	1.3%	1.2%
Per Capita Personal Income	43,773	45,955	45,972	45,068	46,617	48,132	51,658	53,706	57,150	59,437	60,544	61,174
Y/Y Growth	1.4%	5.0%	0.0%	-2.0%	3.4%	3.2%	7.3%	4.0%	6.4%	4.0%	1.9%	1.0%
Total Employment (FT+PT)	832,875	846,322	857,636	862,819	868,919	883,677	886,142	870,863	888,577	898,296	911,126	924,295
Y/Y Growth	2.3%	1.6%	1.3%	0.6%	0.7%	1.7%	0.3%	-1.7%	2.0%	1.1%	1.4%	1.4%
Wage & Salary Employment (FT + PT)	633,781	643,069	649,512	645,039	649,834	663,512	674,513	644,680	657,748	677,916	690,510	693,096
Y/Y Growth	1.8%	1.5%	1.0%	-0.7%	0.7%	2.1%	1.7%	-4.4%	2.0%	3.1%	1.9%	0.4%
Nonfarm Employment (FT + PT)	822,699	836,311	848,163	853,129	859,375	874,363	876,555	861,355	879,145	889,153	902,160	915,466
Y/Y Growth	2.3%	1.7%	1.4%	0.6%	0.7%	1.7%	0.3%	-1.7%	2.1%	1.1%	1.5%	1.5%
Real GDP per Capita	52,623	54,990	58,237	57,234	57,287	57,908	58,018	55,033	55,030	55,979	57,0170	58,059
Y/Y Growth	1.1%	4.5%	5.9%	-1.7%	0.1%	1.1%	0.2%	-5.1%	0.0%	1.7%	1.9%	1.8%

Oklahoma City MSA Employment Outlook by Sector

Industry/Quarter	2021 QI	2021 QII	2021 QIII	2021 QIV	2022 QI	2022 QII	2022 QIII	2022 QIV	2023 QI (f)	2023 QII (f)	2023 QIII (f)	2023 QIV (f)	2024 QI (f)	2024 QII (f)	2024 QIII (f)	2024 QIV (f)
Nonfarm	631.6	641.2	641.4	655.7	654.7	665.6	668.9	677.7	673.4	679.4	679.8	691.3	683.8	687.4	686.7	697.0
Q4/Q4 Growth (%)	-4.0%	6.1%	2.8%	2.2%	3.7%	3.8%	4.3%	3.4%	2.9%	2.1%	1.6%	2.0%	1.5%	1.2%	1.0%	0.8%
Private	504.7	513.5	518.0	527.7	529.1	539.9	546.0	548.3	544.5	549.3	553.5	558.2	552.5	555.8	559.5	563.4
Q4/Q4 Growth (%)	-3.9%	7.5%	3.7%	3.0%	4.8%	5.1%	5.4%	3.9%	2.9%	1.7%	1.4%	1.8%	1.5%	1.2%	1.1%	0.9%
Goods Producing	71.8	73.7	72.8	73.0	74.0	75.7	76.3	76.1	76.2	77.1	77.6	77.7	77.0	77.6	77.8	77.5
Q4/Q4 Growth (%)	-10.0%	-1.1%	0.2%	1.0%	3.1%	2.7%	4.8%	4.3%	3.0%	1.9%	1.7%	2.0%	1.0%	0.6%	0.3%	-0.2%
Service Providing	559.8	567.6	568.6	582.7	580.7	590.0	592.6	601.5	597.2	602.3	602.2	613.6	606.8	609.8	608.8	619.5
Q4/Q4 Growth (%)	-3.1%	7.1%	3.1%	2.4%	3.7%	3.9%	4.2%	3.2%	2.8%	2.1%	1.6%	2.0%	1.6%	1.2%	1.1%	0.9%
Manufacturing	32.5	33.2	33.2	33.3	33.8	34.2	34.6	34.9	34.9	35.1	35.2	35.1	34.9	35.0	35.0	34.9
Q4/Q4 Growth (%)	-2.7%	5.3%	6.1%	4.3%	4.0%	3.2%	4.3%	4.7%	3.3%	2.4%	1.5%	0.8%	-0.1%	-0.3%	-0.5%	-0.8%
Construction	30.4	31.6	30.8	30.5	30.6	31.5	31.4	31.0	30.9	31.8	32.3	32.2	31.8	32.6	32.9	32.7
Q4/Q4 Growth (%)	-4.8%	-0.2%	-2.6%	-2.1%	0.7%	-0.5%	1.9%	1.6%	0.8%	1.2%	2.9%	3.7%	2.9%	2.4%	1.9%	1.6%
Mining and Logging	8.8	8.9	8.8	9.2	9.6	10.0	10.3	10.2	10.4	10.2	10.2	10.4	10.4	10.0	9.9	10.0
Q4/Q4 Growth (%)	-38.5%	-21.3%	-9.2%	0.0%	8.3%	12.4%	16.6%	11.6%	9.1%	2.7%	-1.3%	1.3%	-0.6%	-2.0%	-2.3%	-3.5%
Trade, Transportation, and Utilities	121.9	120.2	120.7	127.2	127.6	126.9	128.0	132.1	129.6	129.4	130.2	133.8	130.9	130.5	131.3	135.0
Q4/Q4 Growth (%)	3.4%	9.1%	3.5%	1.3%	4.7%	5.5%	6.0%	3.9%	1.6%	1.9%	1.7%	1.2%	1.0%	0.9%	0.8%	0.9%
Wholesale Trade	21.6	21.9	21.9	21.7	21.8	22.4	23.2	23.2	23.3	23.5	23.7	23.9	23.9	23.9	24.0	24.1
Q4/Q4 Growth (%)	-9.5%	-1.1%	0.6%	-0.9%	0.9%	2.3%	5.9%	6.9%	7.0%	5.1%	2.2%	3.3%	2.4%	1.7%	1.1%	0.6%
Retail Trade	67.0	67.3	68.0	71.0	70.5	69.1	68.9	71.8	69.9	70.0	70.5	72.8	70.5	70.4	70.9	73.1
Q4/Q4 Growth (%)	1.3%	9.7%	4.1%	2.2%	5.1%	2.6%	1.2%	1.2%	-0.8%	1.4%	2.4%	1.4%	0.9%	0.6%	0.5%	0.4%
Transportation, Warehousing, and Utilities	33.3	31.0	30.8	34.5	35.4	35.5	36.0	37.1	36.4	35.8	36.0	37.0	36.5	36.1	36.5	37.8
Q4/Q4 Growth (%)	19.3%	16.2%	4.5%	0.8%	6.2%	14.3%	16.8%	7.6%	2.9%	1.0%	0.0%	-0.4%	0.1%	0.8%	1.4%	2.2%
Information	5.7	5.6	5.7	5.8	5.4	5.4	5.5	5.6	5.5	5.5	5.5	5.6	5.5	5.4	5.4	5.4
Q4/Q4 Growth (%)	-17.5%	-5.6%	-1.2%	1.8%	-4.1%	-3.6%	-3.5%	-3.5%	0.6%	1.9%	0.6%	0.0%	0.0%	-1.8%	-3.0%	-3.0%

Oklahoma City MSA Employment Outlook by Sector																
Industry/Quarter	2021 QI	2021 QII	2021 QIII	2021 QIV	2022 QI	2022 QII	2022 QIII	2022 QIV	2023 QI (f)	2023 QII (f)	2023 QIII (f)	2023 QIV (f)	2024 QI (f)	2024 QII (f)	2024 QIII (f)	2024 QIV (f)
Financial Activity	34.5	34.8	35.2	35.6	35.5	35.1	35.6	35.6	35.3	35.4	35.6	35.8	35.6	35.7	35.9	36.1
Q4/Q4 Growth (%)	2.0%	4.1%	3.3%	3.5%	2.8%	0.8%	1.1%	-0.2%	-0.5%	0.9%	0.1%	0.7%	0.8%	0.8%	0.8%	0.8%
Professional and Business Services	81.1	83.3	84.8	86.5	87.5	91.6	92.0	90.9	91.3	92.2	92.9	93.4	92.2	92.7	93.4	93.9
Q4/Q4 Growth (%)	-6.5%	5.0%	5.3%	4.4%	7.9%	10.0%	8.6%	5.2%	4.3%	0.7%	0.9%	2.7%	1.0%	0.6%	0.5%	0.5%
Scientific Services	35.2	35.6	35.9	36.6	36.5	37.5	38.6	38.3	38.7	38.7	38.8	39.2	39.3	39.2	39.3	39.7
Q4/Q4 Growth (%)	-2.0%	3.1%	4.6%	4.3%	3.7%	5.4%	7.6%	4.6%	5.9%	3.2%	0.5%	2.3%	1.6%	1.4%	1.2%	1.3%
Management Services	9.3	9.5	9.9	10.1	10.2	10.3	10.3	10.5	10.9	11.1	11.2	11.4	11.5	11.5	11.6	11.7
Q4/Q4 Growth (%)	-14.1%	-0.7%	11.6%	6.3%	8.9%	8.0%	4.0%	4.6%	7.2%	7.4%	8.4%	8.2%	5.2%	3.9%	3.3%	2.3%
Administrative Services	36.5	38.2	38.9	39.8	40.8	43.8	43.1	42.1	41.7	42.4	42.9	42.8	41.5	42.0	42.5	42.5
Q4/Q4 Growth (%)	-8.4%	8.5%	4.5%	4.1%	11.7%	14.7%	10.6%	5.8%	2.2%	-3.1%	-0.5%	1.7%	-0.6%	-0.9%	-0.8%	-0.6%
Education & Health	97.4	98.3	98.8	99.2	98.9	100.0	101.5	104.2	104.0	104.8	105.1	106.6	106.9	107.6	108.0	109.1
Q4/Q4 Growth (%)	-0.9%	5.7%	2.3%	0.8%	1.5%	1.7%	2.7%	5.1%	5.2%	4.9%	3.6%	2.3%	2.7%	2.6%	2.7%	2.3%
Healthcare	86.7	87.5	88.4	88.9	88.9	90.1	91.9	93.8	93.6	94.2	95.3	96.2	96.0	96.7	97.7	98.6
Q4/Q4 Growth (%)	-1.7%	4.5%	2.1%	1.4%	2.5%	2.9%	4.0%	5.5%	5.2%	4.6%	3.7%	2.6%	2.6%	2.6%	2.5%	2.5%
Leisure and Hospitality	65.8	70.6	73.0	72.7	72.6	77.5	79.3	75.6	73.7	75.4	76.5	75.2	74.1	75.6	76.6	75.2
Q4/Q4 Growth (%)	-9.8%	24.1%	10.0%	9.1%	10.4%	9.8%	8.6%	3.9%	1.4%	-2.6%	-3.5%	-0.5%	0.6%	0.2%	0.1%	0.0%
Other Services	26.5	27.0	27.0	27.8	27.6	27.8	27.7	28.2	28.9	29.4	30.0	30.2	30.4	30.7	31.0	31.1
Q4/Q4 Growth (%)	-7.1%	9.6%	-0.6%	4.1%	4.2%	2.8%	2.6%	1.4%	4.6%	5.9%	8.2%	7.2%	5.3%	4.4%	3.6%	3.0%
Government	126.9	127.7	123.4	128.0	125.6	125.8	122.9	129.4	128.9	130.1	126.3	133.1	131.3	131.6	127.2	133.6
Q4/Q4 Growth (%)	-4.4%	1.1%	-0.7%	-0.9%	-1.0%	-1.5%	-0.4%	1.1%	2.7%	3.5%	2.7%	2.9%	1.8%	1.1%	0.7%	0.4%
Federal Government	30.0	30.2	30.2	30.2	29.9	29.9	30.0	30.2	30.1	30.3	30.4	30.3	30.1	30.3	30.4	30.3
Q4/Q4 Growth (%)	1.6%	1.2%	-2.2%	0.7%	-0.3%	-0.8%	-0.6%	0.0%	0.7%	1.1%	1.3%	0.2%	0.0%	0.0%	0.0%	0.1%
State Government	44.1	44.1	42.7	45.0	42.8	42.4	41.1	44.5	43.7	44.3	43.0	47.0	45.4	45.3	43.7	47.4
Q4/Q4 Growth (%)	-5.7%	1.6%	0.5%	-1.5%	-2.9%	-3.9%	-3.6%	-1.1%	2.2%	4.4%	4.5%	5.8%	3.9%	2.4%	1.6%	0.9%
Local Government	52.7	53.4	50.5	52.8	52.8	53.4	51.8	54.7	55.1	55.6	52.9	55.8	55.7	56.0	53.1	55.9
Q4/Q4 Growth (%)	-6.6%	0.6%	-0.9%	-1.1%	0.2%	0.0%	2.5%	3.6%	4.2%	4.1%	2.1%	2.0%	1.2%	0.7%	0.4%	0.2%

SECTION 5

SUCCESSFUL OUTCOMES AND FORECAST ISSUES

FIVE-YEAR FORECAST

FISCAL YEAR 2024-2028

SUCCESSFUL OUTCOMES

Every year the Office of Management and Budget asks staff from each department to identify the most pressing financial issues they will be facing over the next five years. If an issue is resolved, it is removed from the list. Issues with successful outcomes were able to align financial resources with long-term service objectives and were made possible by identifying those issues early so that staff could develop strategies and make recommendations to the City Council. To share those accomplishments and close the communication loop, 15 Successful Outcomes have been summarized on the following pages.

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

EARLY WARNING SYSTEM

The Forecast Issues section highlights key financial issues facing departments in the coming years. Many of these issues are ongoing needs that do not have a specific deadline for addressing them. Some issues, however, do have specific legal or other deadlines. Where there is a specific timeframe, the fiscal year when action must be completed has been identified.

Highlighted Issues. Issues that have a significant impact on services, City operations, or funding sources are highlighted for additional attention and begin on page 95. This year we are highlighting seven major issues for additional attention. Most of these issues are cross-cutting and impact multiple departments, such as employee recruitment, and classification and compensation; a growing demand for technology; and homelessness. The discussion on each issue includes possible directions or next steps for to stimulate conversation and action.

Department Issues. Overall, there are a total of 50 issues that departments are facing, including the eight major issues highlighted. Also included is a narrative from each department that provides a short description of the most critical issues they are facing over the next five years.

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 available revenue sources that provide significant revenue include property tax for capital and/or operations; increasing the rate for taxes such as Hotel Tax; expanding the sales tax base to tax services that are currently exempt; and enacting new taxes such as a City Fuel Tax. Any new or increased taxes would require a vote of the people to enact, and property tax for operations would also require a change in Oklahoma law to allow municipalities to use property tax for operations as counties and schools do now.

COVID-19 RESPONSE

DEPARTMENT:
Multiple Departments

OVERVIEW:
The COVID-19 pandemic wreaked havoc on the Oklahoma City economy. Through the federal CARES Act and later the Emergency Rental Assistance Program (ERAP), the City was able to administer programs that served as a life line to many local businesses and residents. The American Rescue Plan Act (ARPA) of 2021 provided the City further funds that were used to respond to the public health emergency, address the negative economic impacts of the pandemic, and fund various capital projects.

STATUS:
CARES Act funds have been spent. The City was awarded an additional $648,000 in reallocated ERAP 1 funds in November 2022. The City has received its full allocation of $123 million in ARPA funds and has allocated 96% to projects. All ARPA funds must be spent by December 31, 2026.

FUNDING SOURCE
Federal Grants

Cost: $123 million

MAPS 4

DEPARTMENT:
MAPS Office

OVERVIEW:
Oklahoma City voters approved a new chapter in Oklahoma City's history with the passage of MAPS 4 in December 2019. MAPS 4 has a broad focus on various human and community needs such as homelessness, mental health, family justice centers, neighborhood parks, youth centers, senior wellness centers, transit improvements, sidewalks, the Clara Luper Civil Rights Center, a multi-purpose stadium, a new animal shelter, and a new Fairgrounds Arena. In 2022 the MAPS 4 program budget was revised to be $1.1 billion.

STATUS:
Design contracts have been awarded for nine MAPS 4 projects: Animal Shelter, Beautification, Downtown Arena, Diversion Hub, Fairgrounds Coliseum, Family Justice Center, Innovation District, Parks, and Sidewalks/Transit. Construction contracts have been awarded for the Downtown Arena Renovation and the Fairgrounds Arena.

FUNDING SOURCE:
MAPS 4 sales tax began on April 1, 2020

PROJECTED REVENUE:
$1.1 billion over eight years

PUBLIC SAFETY CAPITAL FUNDING

DEPARTMENT:
Fire, Police

OVERVIEW:
The City has funded public safety capital expenses, including equipment, vehicles and technology, through temporary use taxes in recent years. The MAPS 3 use tax expired in FY18 and the Better Streets, Safer City use tax expired in FY20.. When the MAPS 4 program and sales tax was approved by the city's voters on December 10, 2019, the ability to start collecting a new use tax of equal rate to the sales tax was secured. The MAPS 4 use tax will provide Fire and Police with a dedicated capital funding source for at least the next eight years.

STATUS:
MAPS 4 use tax began on April 1, 2020

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

COST:
$19-$24 million annually

INCREASING DEVELOPMENT CENTER IT SUPPORT

DEPARTMENTS:
Development Services

OVERVIEW:
A Business Intelligence Specialist position was added in FY22 and is showing positive results. This position allows for an increased focus on automating many of the Development Center's more manual processes. This will improve customers experience by offering more online capabilities and increasing staff workflow efficiency.

STATUS:
Business Intelligence Specialist was funded as a permanent position in FY22.

FUNDING SOURCE:
General Fund

COST:
Position cost is $92,446.

BETTER STREETS SAFER CITY

CAPITAL IMPROVEMENTS FUNDING

DEPARTMENT:
Public Works, Parks, Planning

OVERVIEW:
The Better Streets, Safer City Program approved by voters in September 2017 included a $967 million general obligation (GO) bond package and a one-cent temporary sales which collected $264 million and expired in March 2020. These funding sources provided for various capital improvements including streets and sidewalks, trails and bicycle amenities, traffic systems, bridges, parks, drainage, economic development, public safety facilities, libraries, transportation systems, Civic Center complex improvements, maintenance facilities, and the downtown arena.

STATUS:
$505 million GO bond funds have been sold as of 2022; 260 sales tax projects have been completed, with 15 projects currently in construction.

FUNDING SOURCE:
GO debt is repaid through property tax; the one-cent temporary sales tax

REVENUE COLLECTED:
$967 million in GO bond funds; $264 million in sales tax

IMPROVED FIRE STATION SLEEP QUARTERS

DEPARTMENT:
Fire

OVERVIEW:
The City allocated $1.3 million in capital funding for individual sleep quarters to be provided for in existing Fire facilities without such accomodations.

STATUS:
Work has been completed at the Department's largest station, Fire Station #1. Planning has begun to utilize the Fire Renovation team to address the remaining multiple company stations in need of upgrades.

FUNDING SOURCE:
Capital Improvement Fund

COST:
$1.3 million

CENTRAL RECORDS FACILITY PURCHASE

DEPARTMENT:
City Clerk's Office

OVERVIEW:
The City Archives and Records Facility project was approved by voters as part of the 2017 GO bond package. The central facility must have the capacity to securely store records on a short and long-term basis.

STATUS:
On August 16, 2022, the City Council approved a Real Estate Purchase Agreement for the purchase of the facility. The facility has 12,950 square feet of storage and office space. It is anticipated the renovation project will be completed in 2024.

FUNDING SOURCE:
2017 GO bonds

COST:
$1,205,571

FIRE FACILITIES RENOVATION TEAM

DEPARTMENT:
Fire, General Services

OVERVIEW:
The Fire Department maintains 43 buildings, most of which house firefighters 24 hours a day. There is a continuous need to update, remodel and improve the living conditions at these locations. Fire worked with the General Services Department to build a team of specialists that will be able to undertake most of the building improvements. This team will consist of a Senior Project Manager, a Carpenter, two Skilled Trade Workers, an Electrician, a Plumber, and an HVAC Specialist.

STATUS:
Dedicated renovation team approved in the FY23 budget to address building maintenance and remodels.

FUNDING SOURCE:
General Fund

COST:
$550,000 annually

RESIDENT SATISFACTION RATING

DEPARTMENT:
All Departments

OVERVIEW:
One of the City Council's seven Council priorities is to uphold high standards for all city services. The City collects this information by conducting an annual Resident Survey, which gathers the needs and desires of residents to ensure the City's commitment to representing the entire population. Based on the results from the Resident Survey, resident satisfaction on the quality of customer service from city employees has increased from 56% in 2016 to 63% in 2022 and the quality of services provided by the city increased from 57% in 2016 to 66% in 2022. The positive interactions that residents have with City employees is critical to maintaining resident trust and is a key indicator of how well the City is meeting the needs of residents. Providing high-quality service helps improve the quality of life in Oklahoma City and helps to make it an attractive place for residents, visitors, and businesses.

STATUS:
Significantly improved.

FUNDING SOURCE:
All City funds

EMBARK RAPID BRT DESIGN AND CONSTRUCTION

DEPARTMENT:
Public Transportation & Parking

OVERVIEW:
With the final design for the Northwest Bus Rapid Transit being completed in early 2022, the Public Transportation and Parking Department, working alongside Public Works, Planning and other City departments successfully branded the new mode as RAPID, organized a community open house to unveil the RAPID vehicles, hosted a construction ground breaking in early summer and since that time have managed the project construction to maintain the schedule of opening service in the fall of 2023.

STATUS:
Under construction; of the 32 platforms on the BRT route, 17 have been constructed. Amenities will be installed starting in the spring of 2023. There has also been work done regarding relocating waterlines, sewer lines, and sidewalk construction along the alignment.

FUNDING SOURCE:
GO Bonds, Better Streets Safer City Sales Tax; Grants

COST:
$13,212,139

FIRST NATIONAL CENTER OPENING

DEPARTMENT:
Economic Development

OVERVIEW:
The renovated 33-story First National Center building was reimagined after years of decay and closure. Once home to the First National Bank in the 1930s and office space in the 1980s, the building was re-purposed and features residential, hotel, restaurant, and retail spaces. The residential component, First Residences, offers 193 apartments, ranging from one bedroom to penthouse suites. The hotel component, The National, features 146-rooms covering eight floors and 2,500 square feet of event space. Dining options include the Great Hall, Tellers, The Mint, The Beacon, Stock and Bond and the Gilded Acorn. The Library of Distilled Spirits is a speakeasy located inside the former bank vault in the basement. The project also included financing for a 14-story parking garage.

STATUS:
Opened April 12, 2022

FUNDING SOURCE:
Public/Private Partnership

COST:
$45 million TIF 10 Assistance in Development Financing

LIVE RELEASE RATE

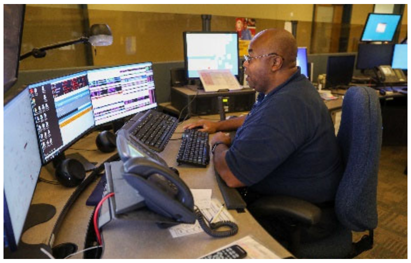
DEPARTMENT:
Development Services

OVERVIEW:
A full-time Veterinarian position was added at Animal Welfare in the FY23 budget. The City exceeded its 80% target with an 86% live release rate in FY19, a significant increase from 35% in FY08, prior to the target being set. As a result, the target was increased to 90% for FY20. The live release rate climbed to over 89% in FY21, due in part to COVID-19 conditions, and fell back to 86% in FY22. Progress has been attributed to lowering animal intakes through the Community Spay/Neuter Program, implementing managed intake, and increasing the number of animals adopted or transferred out.

STATUS:
FY20 live release rate was 81%.
FY21 live release rate was 89%.
FY22 live release rate was 86%.

FUNDING SOURCE:
General Fund, donations, and grants

COST:
$5.2 million – FY23 Animal Welfare budget



EMBEDDED DHS RESOURCE

DEPARTMENT:
Fire

OVERVIEW:
An embedded Oklahoma Department of Human Services (DHS) Resource was added to address increasing demand placed on 911 call center staff. The DHS Social Worker has improved the Department's capabilities in addressing high volume users to the 911 system as well as providing resources to residents when their needs are not being met.

STATUS:
Employee is currently working 20 hours per week.

FUNDING SOURCE:
N/A

COST:
DHS is currently funding the position on a trial period at no cost to the City.

LOWER SCISSORTAIL PARK OPENING

DEPARTMENT:
MAPS Office

OVERVIEW:
Funded by the voter-approved MAPS 3 sales tax, the second half of Scissortail Park was opened in September 2022 after two years of construction. At 30 acres, the lower park nearly doubles the size of Scissortail Park in the heart of downtown Oklahoma City. The lower park has a full-regulation soccer pitch, a soccer practice field, a sports pavilion, four pickleball courts, a futsal court, two basketball courts, and a pavilion at the southern end of the park.

STATUS:
Opened in September 2022

FUNDING SOURCE:
MAPS 3 Sales Tax

COST:
$41 million

AIRPORT BRIDGE DECK REHABILITATION

DEPARTMENT:
Airports

OVERVIEW:
The rehabilitation of the Upper-Level Bridge Deck at Will Rogers World Airport addresses final structural repairs through additional bracing and openings at expansion joints for repairs, protective coatings, and future maintenance. Waterproofing will be installed, and measures for protection of the Terminal Building and passengers will be provided. Accessibility will be improved through the installation of passenger loading and unloading areas. The project also includes restoration of architectural finishes for the upper and lower levels including soffits, curb and traffic lane painting, improved lighting, and installation of new wayfinding signs.

STATUS:
Structural improvements are complete, bollard installation and architectural finishes are 90% complete. The project will be complete by March 2023.

FUNDING SOURCE:
Airport Improvement Grant and local funding

COST: $10 million

HIGHLIGHTED ISSUE

CAPITAL PLANNING AND INFRASTRUCTURE FUNDING

The City supports a large network of infrastructure and capital equipment. Historically, these needs have been funded through both pay-as-you-go financing such as sales and use taxes, and debt financing such as general obligation (GO) bonds. Many of these sources provide for the acquisition of new assets, but not maintenance and repair. While the City has been successful in securing voter-approval for capital funding initiatives, future success is not guaranteed, and many maintenance and repair needs go un-addressed. Recently, the City has faced increased pressure in funding capital needs due to various issues such as supply chain disruptions, inflation, and labor shortages. These issues disrupt the City's capital planning process and diminish the impact of its funding sources.

To effectively manage existing infrastructure and reliably provide for the acquisition of new capital assets, the City must conduct a comprehensive and integrated capital planning process and evaluate opportunities for securing dedicated and sustainable capital funding sources.

POSSIBLE DIRECTION AND NEXT STEPS

- **Capital Improvement Plan.** The Five-Year Capital Improvement Plan (CIP) is a comprehensive listing of all capital projects scheduled for the next five years. The impact of projects on the operational budget is considered, but more thorough estimates should be obtained. While the CIP intersects with departmental planning efforts, it should be more meaningfully integrated with these processes to produce an accurate picture of the City's planned development and any gaps.

- **Capital Asset Inventory.** The Finance Department maintains an inventory of all City capital assets for use in depreciation calculations in financial reporting. This valuable information source should be enhanced and better leveraged to support strategic decision-making in the allocation of resources to maintenance and repair needs.

- **Identification of Funding Sources**

    - **Capital Maintenance Reserve.** In April 2022, City Council adopted updated financial policies that established a Capital Maintenance Reserve Fund into which General Fund operating reserve more than 22% may be transferred to ensure that City facilities are well maintained.

    - **GO Bond Funding.** General obligation bonds are one of the City's primary funding sources for infrastructure and capital projects. GO bonds were last issued in 2017 and the City has typically offered a new issuance every 7-10 years. The City must continue to present a selection of projects to the voters that address critical needs and that do not have other dedicated funding sources. Review Mill Levy Rates. State law restricts municipalities to utilizing ad valorem taxes to fund a debt service fund used to repay outstanding GO bond debt. The City has a practice of maintaining a mill levy rate of around $16 per $1,000 of net assessed value. This practice should be reviewed to ensure that it recommends a rate commensurate with the community's infrastructure needs.

    - **Explore Additional Options.** The City should think creatively about how to fund infrastructure and capital maintenance needs. Special sales and use taxes have been utilized to fund the MAPS programs, public safety equipment and street improvements. Impact fees help to construct the infrastructure needed to accommodate new development. Before imposing new taxes or fees, the City will explore opportunities for enhancing or shifting around existing revenue sources.

Water Utility – Water Supply
Securing additional water supplies to meet Central Oklahoma's projected long-term water needs through 2060 is a strategic priority for the Utilities Department. Two separate pipeline projects are essential to achieving this long-term goal. The construction of the second one-hundred-mile-long pipeline from Lake Atoka to Lake Stanley Draper is underway. In addition, the Oklahoma City Water Utilities Trust (OCWUT) will start determining the alignment and design of the Kiamichi pipeline in the next five-year period. This pipeline will be 33 miles long and will run from Moyers, Oklahoma to the Atoka Reservoir. These pipelines are projected to be completed in the next 12 years and will be able to transport all the City's Southeast Oklahoma water rights to Central Oklahoma for treatment and use.

Increasing Costs and Shortages of Services and Supplies
As an essential service provider, it is necessary for the Utilities Department to operate, maintain, and improve its water, wastewater, and solid waste management systems to protect public health, public safety, and the welfare of the community. Over the past year, the price of services and supplies procured such as electricity and the chemicals to treat water have significantly increased. As an example, the price of chlorine has increased almost 300%. Record-high inflation, supply chain logistic challenges, rising fuel costs, and labor shortages have contributed to an increased cost of operations and maintenance activities. Furthermore, this market volatility has impacted the cost of capital projects. Many project bids have come in significantly higher than engineer estimates, some between 20% and 30% higher. As an example, the South Canadian Wastewater Treatment Plant Improvements project was estimated at $156 million at advertisement; within a span of a couple months, the lowest bid received for this project was $214 million.

Staffing Challenges
The Utilities Department provides essential water, wastewater, and solid waste management services to residents, businesses, and visitors in central Oklahoma. The Department has averaged a 17% vacancy rate, or 130-plus vacant positions, compared to an industry median of 7% over the past several years. The inability to recruit, hire and retain a qualified workforce creates a challenge for the department to maintain a level of service reliability.

POSSIBLE DIRECTION AND NEXT STEPS

- The Department is working with its financial advisor to identify, evaluate, and present alternative financing strategies and scenarios to fund operations, maintenance, and capital project expenditures.

- The Department is evaluating and rescheduling capital projects, conducting value-engineering, and offering indexing with projects to manage costs over the five-year period.

- The Department is evaluating and implementing strategies to recruit and retain a qualified workforce. These strategies include internship programs, hosting career fairs, utilizing temporary labor agencies, and implementing an onboarding program to provide new employees with a broad overview of the Department and opportunities to develop within the organization.

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM INVESTMENTS

Over the next five years, EMBARK will need to strategically invest in transit planning, system and facility design and environmental work in order effectively compete for federal funds made available through the Infrastructure Investment and Jobs Act (IIJA). The resulting plans, architecture and engineering work will allow the City to compete for more federal funding to lessen the local financial burden of maintaining and modernizing the existing transit system and equip stakeholders with information and tools needed to make informed strategic decisions. The funding need is approximately $5.5 million over the next five years.

POSSIBLE DIRECTION AND NEXT STEPS

- The Public Transportation and Parking Department will continue to seek competitive Federal Transit Administration (FTA) grant funding for capital investment in new facilities, thereby leveraging local funding to provide a local match, with the FTA providing 50% or more of the funding.

- The City’s next bond election could include a proposition for new, expanded transit facilities.

- The Department will work to identify alternative revenue sources for future increased operating costs.

HIGHLIGHTED ISSUE

HOMELESSNESS

Homelessness is a growing concern in Oklahoma City. The COVID pandemic exacerbated factors that contribute to rising rates of people experiencing homelessness, as evidenced by a large increase in unsheltered chronically homeless individuals documented in the last Point in Time Count. In August 2021, City Council received the “Strategies to Address Homelessness in Oklahoma City” plan, which was developed with guidance and participation from the Mayor-appointed Homelessness Taskforce comprised of City Council members, municipal staff, service providers, and philanthropic organizations. The plan assesses the current service system, determines needs, recommends strategies to address multiple issues, and sets benchmarks to determine progress. The Inasmuch Foundation donated $100,000 to the City to help fund the development of the plan, and the City funded a full-time position to oversee implementation of the plan.

With continued contributions from Inasmuch and Arnall Family Foundations, the City hired Clutch Consulting to guide the restructuring of the homeless services system and governance of the Continuum of Care board. In addition, the Clutch team is working with City staff on testing a pilot program that provides rapid rehousing and support services for people sheltering in encampments. In November 2022, staff presented the first annual update on implementing Strategies to Address Homelessness to City Council. The City launched several new initiatives in 2022, including an employment program called A Better Way that targets people who are panhandling, a Homeless Street Outreach program that will coordinate with emergency responders and law enforcement when a mental health response is needed, and a Youth Homelessness Demonstration Program. Finally, the availability and affordability of housing and supportive services are critical needs that are key to reducing homelessness in our community. The City allocated $8.25 million of its American Rescue Plan Act funds to support affordable housing projects, which will supplement the $55 million in MAPS 4 funds for affordable housing.

POSSIBLE DIRECTION AND NEXT STEPS

- **Implement Homelessness Strategies Plan.** The “Strategies to Address Homelessness in Oklahoma City” plan includes multiple strategies that may require funding, partnerships or other resources provided by the City within the next several years.

- **Coordination with Internal and External Partners.** City staff from the Planning Department, Police Department, and City Manager’s office must continue to work closer than ever to coordinate with service providers, non-profits, and philanthropy on programs focusing on housing first and intervention.

- **Build on Successes of Pilot Programs.** Newly launched programs such as A Better Way, Homeless Street Outreach, and Youth Homelessness Demonstration were initiated with a combination of grants, donations, and General Fund dollars and will require ongoing funding and support to continue beyond the pilot period. The City should critically evaluate the strengths and weaknesses of pilot programs to address homelessness and provide support for those that prove effective in addressing the problem.

HIGHLIGHTED ISSUE

EMPLOYEE RECRUITMENT, ENGAGEMENT AND RETENTION STRATEGIES

Oklahoma City has one of the lowest unemployment rates of large cities. While a low unemployment rate is a sign of a strong economy, there are downsides to employers such as employee turnover, the need to increase wages and benefits, increased training budgets, more time to fill positions, and impacts on service delivery.

The City has many critical positions vacated due to turnover, including retirements. The loss of institutional knowledge or positions left vacant could have a detrimental effect on performance and morale. Departments have had trouble in filling and retaining employees in various fields. While most City positions have increased in pay, there are many positions for which compensation has not kept pace with the marketplace. Preliminary results from the Classification and Compensation Study will not be available until early 2023, which may present a delay in addressing this issue. Along with the results of the Study, benefit program offerings and cost may present opportunities and challenges in enhancing and closing gaps in total compensation. Other challenges include implementing wellness benefits and providing additional chronic disease management solutions. Without addressing these needs, the City can expect increased medical insurance premiums, which will limit the ability to deliver on other initiatives.

POSSIBLE DIRECTION AND NEXT STEPS

- **Revised HR Department Organizational Structure**. Decentralizing many employee-related efforts to field departmental HR business partners, who will report to the HR Department, will help the City achieve efficiencies of scale, provide consistent employment practices, and improve the employee experience.

- **New Human Resources Technology Systems.** A new HR information system is being implemented, and the estimated go-live dates are in January 2023 (Phase I) and July 2023 (Phase II). The system includes performance and learning management, and applicant tracking components that will improve processes, enable talent planning, and support talent development. It will include benefit administration components that will also provide self-service functionality. Implementation of a new eLearning system is also underway, and the estimated go-live date is in December 2022/January 2023. The eLearning system will give employees access to professional development courses, certification programs, and policy compliance-related training. To ensure equitable access, all City employees will need access to the courses via electronic platforms.

- **New Classification and Compensation Study**. The City has historically conducted a classification and compensation study every 10 years, with the last one completed in 2010. A new study was initiated in 2021 and should complete in 2023. The study will determine whether pay structures are appropriate, if the classification system is structured efficiently, and if job classifications need to be added, re-titled or deleted. It will also update descriptors of work performed and performance evaluations, and ensure legal compliance.

- **Employee Engagement Survey.** The City launched the first employee engagement survey in 2022 to measure engagement, sense of belonging, and sentiment regarding key elements of the organization and work environment. Departments are building engagement plans based on survey feedback. After adding outside support for some functions, the HR Department has more capacity to focus on proactive measures, provide management consultation, and offer support to departments in developing their engagement plans.

- **Benefit Program Offerings.** For 2022, the HR Department contracted with a consultant to review and recommend changes and enhancements to the City's benefit program.

HIGHLIGHTED ISSUE

COMMUNITY POLICING

Several high-profile events around the country have raised awareness of police department practices and focused attention on how the Oklahoma City Police Department operates. In 2020, the City established a Law Enforcement Task Force made up of 44 community leaders from diverse backgrounds. The group focused on evaluating the Police Department's de-escalation policy and the structure in place designed to provide independent accountability back to the community. In addition, City Council passed a resolution creating a Community Policing Working Group made up of eight community members and four members of City staff to study training in crisis response, officer access to mental health services, alternative responses to mental health calls, youth outreach, homeless outreach, and neighborhood safety/violence interruption programs. 21 CP consulting was selected to research policies, procedures, and best practices, and to get input from residents on policing issues that concern them. The Inasmuch Foundation also donated $175,000 towards the program.

During the fall of 2021, ETC Institute administered a survey to Oklahoma City residents to gather input and feedback to better understand the expectations residents have regarding the Police Department and police interactions. After approximately a year of community input, research, and discussion, 21 CP provided 39 recommendations to the Task Force and the Working Group. The City Council received an 85-page report in March 2022 that included the 39 recommendations that focused on de-escalation, community engagement, and accountability. The results from both the survey and the report have helped inform City leadership about practical and innovative solutions that will reflect the unique needs of the community. The implementation of solutions to meaningfully address the issue of community-based policing is a process expected to extend through several years and involve on-going costs.

POSSIBLE DIRECTION AND NEXT STEPS

- **Leverage City staff to pursue solutions**. The results from the survey and recommendation report led to the hiring of a Special Program Coordinator position to develop a clear, actionable plan for implementation of proposed recommendations rooted in best practices. In addition to this position, the City will continue to leverage existing staff to develop practicable solutions.

- **Secure additional funds for ongoing costs.** Funding has been dedicated in the General Fund budget for implementing policing reforms and the recommendations from the Law Enforcement Task Force. Additional funding will likely be needed in the future, especially for any new operational costs generated as a result of these recommendations, such as for the creation of new positions or for contracts between the City and community partners.

HIGHLIGHTED ISSUE

GROWING DEMAND FOR TECHNOLOGY

The City strives to provide high-quality and efficient services to residents which involves the expanded use of technology and automation of various City services. As technology service, support needs, and expectations continue to evolve, the City must adapt to the changing environment. As part of this change, the City has moved towards incorporating cloud-based services that are essential for improving operations, supporting employees and residents more effectively, improving productivity, and safely storing data.

Over the last 20 years, technology service and support needs and expectations have greatly increased, yet IT staff levels have increased by less than 15% over the past five years. Service levels have been maintained through dedicated IT staff with high levels of skill, knowledge, and efficiency, but these services levels are not sustainable without resources commensurate with the continued technology expansion. Recruitment and retention of those individuals requires offering competitive compensation packages which drives up costs.

POSSIBLE DIRECTION AND NEXT STEPS

- **Classification and Compensation.** The City will be completing a classification and compensation study in 2023. This will help ensure that IT staff are paid at competitive levels.

- **Training.** The City will continue to provide adequate training to IT staff to maintain high levels of the skills and knowledge necessary to provide quality services to the residents.

- **Reducing Costs through Technological Innovation.** The City is committed to improving service levels and creating efficiencies and cost savings through technological innovation. We will continue to adapt to the changing technological environment while striving to provide high quality services to our residents.

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AIRPORTS

Construction of Additional Public Parking

Airport staff tracks parking garage capacity by identifying when the parking activity exceeds 85% of daily capacity. Exceeding this capacity on a regular basis is an indication of a capacity constraint. In FY19 parking exceeded 85% of daily capacity, 88% of the days of the year, which resulted in a parking capacity problem. During FY22, the capacity trigger occurred on 26% of the days, which is an indication that parking activity has not fully recovered, and the capacity constraints have not reached the pre-pandemic level of activity.

More passengers seem to prefer garage parking to the surface lots, given Oklahoma City's propensity for severe weather and the convenient access to the tunnel walkway to enter the terminal. While covered parking is a preference for many customers, constructing a third parking garage with dedicated vehicle ramps is not financially feasible given the reduction in parking transactions since COVID. Continued monitoring of parking and transportation trends over the next five years will continue to shape decisions regarding public parking. A financial feasibility study on Airport parking was conducted in 2017 and will be updated in the near term.

Maintain and Improve Existing Building Systems and Aging Infrastructure

Some of the Airport's building systems and infrastructure at Will Rogers World Airport, Wiley Post Airport, and Clarence E. Page Airport are original and date back to the 1960s. The continued development at the City's airports is beginning to strain some infrastructure, such as storm drainage systems, building systems, and various pavements. Aging building systems and facilities are continually evaluated to determine required maintenance, replacement, or disposal along with the replacement of aging pavement projects.

A priority project was completed to reconstruct southbound Terminal Drive from SW 54th Street south to SW 67th Street in the fall of 2020. Phase II will reconstruct Terminal Drive outbound and the intersection at Amelia Earhart and Terminal Drive. The passenger drop-off bridge deck on the upper-level terminal is currently undergoing a significant rehabilitation project that is estimated to be completed in the late winter of 2023. Coinciding with this project will be architectural and aesthetics improvements to the lower-level passenger pickup area that will improve safety and wayfinding for vehicles and pedestrians. Runway 13/31 at Will Rogers World Airport is being reconstructed in a multi-year project. The asphalt pavement is showing signs of distress, including medium to high severity cracks. This project will also replace runway lighting and correct drainage issues. Due to the pandemic, over $72 million in capital improvement projects were put on hold for FY20 through FY22. The FY23-FY27 Capital Improvement Plan includes $213 million of funding for projects that prioritize safety, lease requirements, paving, and compliance. Additional projects will be incorporated though the evaluation of a lifecycle analysis versus a repair cost benefit.

Unstable Revenue

In FY19, Will Rogers World Airport had record enplanements totaling over $2.2 million. FY20 was on track to set a record as well until March 2020. On March 13, 2020, the U.S. President declared a National Emergency because of the COVID-19 pandemic. As a result, much of the passenger traffic dramatically dropped for the remainder of 2020 and 2021. In FY21 and FY22, passenger enplanements decreased 47% and 14% compared to FY19, respectively. With this drop in enplanements comes a drop in revenues, not only related to passenger airlines, but other passenger activity revenues such as food, beverage, and retail concessions, parking, rental car concession, customer facility charges, and passenger facility charges. As a result, several capital projects were placed on hold, such as the covered parking surface lot and Terminal Drive rehabilitation. The reduction in capital projects will have a long-term impact on the Airport's infrastructure.

The Infrastructure Investment and Jobs Act of 2021, referred to as the Bipartisan Infrastructure Law (BIL), made grant funding available through a competitive process by establishing the Airport Terminal Program (ATP) and yearly allocation for Airport Infrastructure Grants (AIG) has made additional grant funds available for Airport infrastructure projects for FY22-FY27. The Airport is seeking grant funding opportunities through these new grant programs to fund infrastructure improvements. In FY23, the Airport was awarded a $1.4 million grant under the ATP program for Phase II of Terminal Drive rehabilitation. Airport staff will continue to monitor this ever-changing aviation environment.

CITY AUDITOR

Contracted Information Systems Audits

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

Timely Response to Risk Assessments

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

CITY CLERK

Enterprise Records Management System

The City Clerk's Office initiated a project with the Information Technology Department to implement an Enterprise Records Management System. This system will provide the City Clerk's Office and departments with a centralized method of storing and retrieving records. Records retention polices can be automated and applied through this system. It is critical to obtain a records management system prior to opening the new archives and records facility. The system is estimated to cost between $250,000 and $300,000.

Operation of New Archives and Records Facility

The City Archives and Records Facility project was approved by voters as part of the 2017 general obligation (GO) bond package. A central facility for City records creates a need for funding to staff, equip, and operate the facility. The purchase of an Enterprise Records Management System is essential to the operation of the new facility. The central facility must have the capacity to securely store records over the short and long term. On August 16, 2022, the City Council approved a Real Estate Purchase Agreement for the purchase of the facility. The facility has 12,950 square feet of storage and office space, and requires data storage and computers, shelving and archival boxes, office furniture, and staffing to provide records management services. It is anticipated that the renovation project will be completed in 2024. Additional consideration should also be made for a dedicated vehicle for transporting records between the facility and the downtown City campus.

CITY MANAGER'S OFFICE

Inclusion and Diversity

City leadership understands that a more diverse, equitable, and inclusive workplace greatly impacts the employee lifecycle – from recruiting and retention through retirement. Committed to transforming the employee experience, the City's Inclusion and Diversity (I&D) team continues to partner with the Human Resources Department on pivotal culture changing initiatives such as the implementation of a robust Learning Management System (SkillSoft) and the execution of a comprehensive employee engagement strategy. To track progress of the strategy, the City identified Gallup as its employee engagement survey (The Gauge) administrator. The Gauge launched in the summer of 2022 and will be administered annually.

Also launched in the summer of 2022, the City's Equity Council (chaired by the City Manager) is tasked with integrating I&D into departmental business strategies. This promotes equity, not only in the workplace, but in decisions that impact the lives of our diverse residents. Furthermore, the I&D team is committed to strengthening employee's professional development, cultural competence, and networking opportunities through numerous methods. Finally, City leadership will continue to explore workplace policies, procedures, and systems through a lens of equity.

Innovation

The City Manager recognizes the importance of innovation to provide the highest level of service to our residents. Through a continued focus on training and implementing agile approaches, innovation will become more widespread throughout the organization. As part of the innovative focus, the City will more actively connect with residents to ensure its services are meeting their needs. The Department is in the process of hiring a Chief Innovation Officer who will work with internal and external partners to develop, test, and encourage best practices in local government, with the goal of fostering a culture of customer-focused, data-driven solutions and continuous improvement throughout the organization.

Homelessness

(Highlighted Issue – Page 98 for additional information)

Community Policing

(Highlighted Issue – Page 100 for additional information)

DEVELOPMENT SERVICES

Development Center Customer Service

Several factors continue to challenge the Development Center's ability to provide quality customer service. Commercial and residential construction have continued to grow with new commercial plan submittals increasing by 25% from FY21 to FY22. Construction inspection requests have also increased by 25% from FY19 to FY22. A new State law requires fireplace installers to be licensed, which will require the creation of new processes for contractor registration, permits, and additional inspections to ensure proper licensing and installation. Increasing demands for permit and licensing services, along with providing the primary staff for the cross-departmental Business Services Center, continues to challenge the Development Center's ability to provide quality customer service. Phone calls received by Permits staff have increased by 14% from FY21 to FY22. The technical requirements of many of the Development Center's positions make it difficult to hire and retain qualified staff. The complexity of the City's overall development process also presents unique challenges to improve the customer experience. Without additional resources, the quality of customer service and customer satisfaction will decline.

Increased Code Enforcement Demands

An increased demand for environmental code enforcement is being driven by the number and type of violations, increased abatement costs, and staffing needs. The volume of junk and debris per complaint has continued to rise, which increases the cost per abatement. In July 2024, the contracts with abatement contractors will be issued for bid again, resulting in potential cost increases. Additionally, reductions in staffing continue to have a negative impact for Code Enforcement. Currently, we have 22 field inspectors, which is down from 27 in FY17. During the past five years, Code Enforcement has averaged over 87,500 inspections per year. The reduction in staffing and increased demand can result in a backlog of unworked cases and increased resident dissatisfaction. Increased staffing will enable us to provide quicker complaint response and improved service for our residents. Finally, the implementation of a new sign ordinance will place additional demands on Code Enforcement staff to provide proactive enforcement for dilapidated signs.

Achieving a 90% Live Release Rate at the Animal Shelter

Animal Welfare achieved its highest live release rate in FY21 at 89%, just below the 90% target. This was due, in part, to a lower intake of animals related to operational changes resulting from COVID-19. In FY22, the live release rate dropped to 86%. An increase in animals sheltered, the lack of qualified applicants for vacant positions and high demands on existing staff may continue to adversely impact the live release rate. To obtain and maintain a 90% live release rate, Animal Welfare needs an additional Veterinarian Assistant, two Pet Placement Coordinators and two Shelter Officers. The Community Spay/Neuter Program has played an important part in increasing the live release rate by helping to reduce the number of animals entering the shelter. Additional funding for this program is needed to maintain and expand the progress that has been made.

FINANCE

Rising Costs for Insurance Coverage new

The City of Oklahoma City and its related Trusts have a property portfolio that is currently valued at over $4 billion. These valued assets require some level of insurance coverage. Insurance is a global market and issues impacting other areas around the world impact the premium the City receives. The property insurance market has hardened over the last several years, resulting in higher premiums, despite coverage limits being lowered. Zurich has been the City's primary property insurer since FY13. The premium increases as Zurich reduces its coverage and the current Broker (until December 31, 2022), Alliant, must market that gap created to other underwriters.

In FY18, Zurich granted the City a three-year property premium rate guarantee for $1.8 million annually. When that rate guarantee ended, Zurich began to reduce its risks with the City. Over the past several years, the primary layer coverage has been reduced from 100% to 25%. The reason for this reduction is largely due to the property damage suffered by regional neighbors like Texas and Arkansas, in addition to the war in Ukraine. The City will not be able to return to its previous guaranteed rate. Moreover, the City continues to bring new structures and facilities online, which is expected to increase its property assets by several hundred million dollars. The overall valuation will undoubtedly continue to increase, which creates unique issues for the City. Climate changes and extreme weather patterns also impact the property premium. Prolonged freezing weather, like what was experienced in 2020, is likely to continue. Harsher winters present issues for structures like the Bricktown and Softball Hall of Fame ballparks and facilities that are exposed to the elements, like those operated by EMBARK, Airports, and Utilities. The warmer weather can present issues like tornadic activity, high winds, and hail.

Risk Management is set to bring a new Broker, McGriff, online beginning January 1, 2023. It is the intention of staff and McGriff to conduct new analyses of the current policy to ensure that the City has the most appropriate coverages and limits. There will be a concerted effort to create an appraisal program for City facilities over the next few fiscal years. There has been discussion regarding the assets identified and covered on the policy, and which assets may be removed to reduce the City's total valuation. Risk Management is preparing to address the anticipated increase in the number of department claims that do not meet the deductible limit as the coverages are analyzed and altered, or if certain properties and/or assets are removed. Risk Management staff will continue to research other alternatives for the increasing property premium issue.

Capital Planning and Infrastructure Funding new

(Highlighted Issue – Page 95 for additional information)

FIRE

Fire Facility Management

The Oklahoma City Fire Department (OKCFD) has 43 facilities of various ages. The older facilities need renovation and frequent repairs. In 2015, MA+ Architecture provided a comprehensive facilities assessment, with the goal to "identify conditions and recommendations, that when they are implemented, will improve the health, safety and welfare of the firefighters living and working at the stations." This assessment identified a total cost estimate of over $23 million to repair all identified issues and bring each station up to modern standards. The study identified three fire stations in need of being rebuilt, which were included in the 2017 general obligation (GO) bond package.

The Fire Fleet Maintenance & Logistics Center is 50 years old and in need of replacement. The department has centralized its maintenance and logistics function in this one location and has increased the size of its fleet. These factors, along with the current facilities need of constant repair, create the need for a larger and modern facility. The Department's Special Operations Section manages multiple specialized pieces of equipment and apparatus, which are utilized to fulfill the mission of the Department's Technical & Urban Search & Rescue Functions. These assets are currently stored in multiple locations throughout the City. Many of these facilities are aging and in disrepair. There is a need for a centralized Special Operations facility that can adequately and securely house these assets. Fire and Police are currently in the process of building a new joint PSTC (Public Safety Training Center). When the new PSTC is completed, the Department intends to utilize the current Fire Training Facility to meet other departmental needs. These needs will include housing mental and physical “wellness” resources and functions (Licensed Professional Counselor, Peer Support Team Leadership, Wellness Lieutenant, Chaplain, etc.) in one central location. This facility will also be used to support the Public Safety Communications Center (PSCC) and Regional Multi-Agency Communications Center (RMACC). This will require remodeling and renovating the facility.

Although efforts have been made to address these issues with existing budget, a long-term funding source is needed to complete many of the priorities, urgent repairs, and modernization updates necessary to ensure firefighters can operate in the safest facilities possible.

Maintaining Operations of all Apparatus

The Fire Department currently has 927 Operations-Suppression personnel that staff the Department’s 38 fire stations. All fire stations have Advanced Life Support (ALS) capabilities provided through 33 engines and four ALS brush pumpers. The remainder of the response apparatus can provide Basic Life Support (BLS), which are four engine companies, 13 ladder companies, one medium rescue and one hazardous materials company, 12 BLS brush pumpers, six heavy tankers, one air supply unit, six Battalion Chiefs, two Customer Service Liaisons (CSLs), and one Shift Commander. The Suppression Division consists of three different shifts that work a 24-hour modified Kelly shift schedule, a scheduling system common among fire departments. The work schedule requires that each shift work 24 hours on and 24 hours off, repeated and followed by 24 hours on and 96 hours off. This equates to a 56-hour work week or 216 hours in a 27-day cycle. Each shift is staffed with 309 personnel with a daily minimum staffing based on the Collective Bargaining Agreement (CBA) of 236 personnel.

OKCFD has a minimum staffing model based on the CBA, which requires four personnel on all ALS engine companies; three on BLS engine companies; three on ladder companies; four on the medium rescue and hazardous materials companies; two on ALS brush pumpers; one on the brush pumpers, tankers, air unit and CSL unit; and two on each Battalion Chief vehicle. This overstaffing of personnel is designed to cover days off and long-term leave such as sick leave, on the job injuries, and administrative leave. It is also designed to minimize overtime due to a daily requirement of 66 guaranteed day off slots based on an arbitrator ruling. This total daily staffing does not take into consideration any long-term leave due to injury, unexpected Family Medical Leave Act (FMLA) leave used, sick leave, or vacancies. A five-year review of the data indicates OKCFD averages 30 leave slots per day for this type of leave. With personnel costs taking up almost 90% of the annual budget, staffing costs attributed to maintaining the operation of all apparatuses will continue to be the primary budget challenge for the Department.

Emergency Medical Services Programs

The Emergency Medical Services Authority (EMSA) was formed in 1990 when the prior ambulance service was dissolved. A trust was formed to ensure residents of the Oklahoma City metro area have quick, affordable, and reliable medical transportation services when medical emergencies arise. The primary beneficiary cities within the Trust are Oklahoma City and Tulsa, but there are multiple entities that comprise EMSA: the Board of Trustees, the EMSA Authority, the City Governments, and the Office of the Medical Director. The primary objective of the EMSA Authority is to provide operational oversite by ensuring their system contractors meet adequate response times, which are currently 10 minutes and 59 seconds for Priority 1 calls and 24 minutes and 59 seconds for Priority 2 calls. In December 2020, the EMSA Authority chose to sever the contract with their third-party contractor, American Medical Response (AMR). Since May 2020, emergency medical transportation response times have not met minimum requirements, which creates severe operational challenges for Fire and potential ineffective medical transportation for residents who experience a medical emergency. City leadership and Fire must determine how to best manage this critical service and ensure residents receive the highest level of service.

Since the EMSA Trust Indenture has recently been updated and now allows beneficiary cities to provide supplemental Emergency Medical Services (EMS) transport services, the City of Oklahoma City must now work with EMSA to develop and execute a contract to allow the Fire Department to provide the services described within the Indenture. The City and EMSA must work to develop a comprehensive Operational EMS to better meet the needs of the community. The COVID-19 pandemic exposed vulnerability within the EMS transportation plan in that the City has no means of providing supplemental EMS transport services. Allowing the Fire Department to purchase and staff additional ambulances will augment the existing EMS transportation plan, thus improving this vital service to residents.

Additionally, when EMS was originally designed, its purpose was to provide pre-hospital patient care for those suffering from medical and trauma conditions and then transport them to hospital emergency departments. The need to diversify from a transport service to a fully integrated component of the healthcare system has become evident. Systems in the U.S. and Canada have demonstrated that patients are better served when EMS is allowed to provide patient navigation throughout the healthcare system.

Oklahoma City has an opportunity to transform its current system from a "traditional" EMS system into an "integrated health care" system. The proposed system expansion will**,** in addition to maintaining outstanding pre-hospital patient care and transport, provide the following critical functions and benefits:

- Patient education and consultation utilizing approved clinical algorithms delivered through available mobile and virtual communication technologies.
- Preventative care, chronic disease management, or post-discharge follow-up care.
- Appropriate alternative healthcare destination navigation.

GENERAL SERVICES

Facility Asset Management

The industry standard for square footage maintained per full-time equivalent (FTE) is 55,000 square feet. The Building Management Division (BMD) currently has 26 budgeted full-time maintenance and skilled-trades personnel. BMD is presently maintaining 90,269 square feet per full-time maintenance position. The BMD could potentially lose 25% of its current maintenance staff through retirements during the next 3-5-year period, which will adversely affect continuity of operations and reduce organizational knowledge.

By using a work order system to schedule preventative maintenance, General Services is striving to transition from preventive maintenance to more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Additional licensed skilled trades personnel are needed to accomplish predictive maintenance and eventually eliminate deferred maintenance in existing and newly constructed City facilities. The greatest need currently exists in the electrical, HVAC, plumbing, and skilled trades work sections.

Facility Capital Maintenance

In March 2021 the City Council awarded a contract to Benham Design, LLC to conduct a capital needs assessment study of 88 City facilities. The scope of the study includes an extensive inspection of each facility's mechanical and plumbing system, electrical system, roof and guttering, structural assessment, building envelope (exterior) system, code compliance and ADA compliance. The goal of the study is to provide City staff a planning tool that will assist in making annual funding decisions regarding which facility upgrades will be addressed in a given fiscal year.

The consultant submitted the draft preliminary report in October 2021 for staff to make a full review and provide recommendations for the final report. The report provided the estimated cost of $31.6 million to make required upgrades to the 88 facilities, and does not include any repair costs estimated at less than $5,000. Given this estimate, a long-term funding source / plan is needed to make needed repairs to the City's facilities.

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

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

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

- *Other City Facilities*
  Past General Obligation Bond Authorizations provided funding for many new buildings and facility improvements throughout the City. The Fire Department has 43 facilities of various ages, which now require approximately $23.0 million in repairs. A Fire Station Renovation program was approved in the FY23 budget which will fund renovations at those stations most in need of remodeling.

Fleet Services
The Fleet Services Division consists of one Manager, one Field Operations Supervisor (FOS), three Equipment Service Workers, 17 Master Mechanics, and two Service Writers for a total of 24 positions. For the size of the General Fleet, the Vehicle Maintenance Division is severely understaffed.

Manpower studies have been accomplished within the fleet maintenance industry, and a general recommendation is that one mechanic can support 60-120 vehicle equivalents (VEs). VEs are a relative way of looking at the fleet. A standard sedan is the base unit and is assigned a VE value of 1.0. All other vehicle types in the fleet are assigned a VE value that represents the manpower required to maintain them in relation to a standard sedan. For instance, an asphalt patching truck is assigned a VE of 12.0. This means that maintaining an asphalt patching truck requires 12 times the manpower than it would to maintain a standard sedan. With Fleet Service's current staffing, the ratio of VE's per mechanic is 315 VE's per 1 mechanic. Fleet Services has met with industry consultants whose experience with comparable municipal clients has underscored the acute problem the City faces with understaffing in the Division.

Since there is a direct correlation between manpower and the amount of work that can be accomplished, the understaffing limits the vehicle output in the maintenance shop. The Police Department is the largest customer with 1,062 active units. An analysis of work orders completed in calendar year 2022 indicates that on average, a work order for a Police unit was open for 4.5 days. The leading factor in this slow vehicle turnaround time is lack of manpower. An increase in mechanic staffing of 10 positions would lower the VEs per mechanic ratio to 200, increase the number of vehicles that can be serviced through the shop in any given time, reduce vehicle turnaround time, and increase vehicle uptime. However, an increase in manpower would also require an increase in facility size to accommodate the larger workforce.

The National Automotive Fleet Association (NAFA) recommends 1-1.5 work bays per mechanic, and two bays per heavy truck mechanic. Fleet Services operates out of Central Maintenance Facility Building 8. With 21 available work bays, Building 8 is at maximum capacity. By the NAFA recommendations, the shop should have 30 bays for mechanics. Further staff increases would neccessitate more space, for example, with a manpower increase of seven auto mechanics and three heavy mechanics, the optimum number of work bays would be 46.5.

Fleet Vehicle and Equipment Replacement new

Acquisition of new fleet vehicles and equipment has been challenging in recent fiscal years. Many fleet orders for model years 2021 and 2022 were not built and the subsequent orders were cancelled by the manufacturers. This has greatly increased the current overall demand for vehicles and equipment within the City organization. With very limited production due to supply chain constraints and nearly two years of back orders, the Department has experienced a sharp increase in vehicle/equipment purchasing prices of greater than 30%-40%.

- 2022 Ford F150 Crew Cab 4X4 - $34,323
  2023 Ford F150 Crew Cab 4X4 - $45,481
  32.5% price increase

- 2022 Ford Transit Van - $32,993
  2023 Ford Transit Van - $48,393
  46.7% increase

With the steady increase of prices for new vehicles and reduced fleet vehicle/equipment availability, Fleet Services will need to make critical decisions whether to pay higher acquisition costs or pay for higher maintenance and repair costs on existing equipment. If Fleet Services can purchase new vehicles and reduce maintenance costs, it will be able to provide a more reliable, cost-effective fleet. Ultimately, Fleet Services will be required to spend significantly more on vehicles and equipment to continue replacement schedules to mitigate the issues of an aging fleet.

HUMAN RESOURCES

Human Resources Service Level

According to the "HR Benchmarks Report" published by Bloomberg Law in June 2018, "HR departments have a median of 1.5 employees per 100 in the workforce." This equates to 75 positions for a workforce of 4,989 budgeted positions. The prior benchmark hovered for decades at 1 employee per 100 in the workforce or 50 positions for the City. The Human Resources Department is currently authorized for 34 positions or less than 45% of the recommended staffing to cover a highly complex HR environment with multiple unions, Citywide and department-specific personnel policies, staffing issues, pay plans, benefit plans, and operations covering hundreds of job classifications. The Department's service volume output capacity is directly correlated to current staffing levels. The Department's processing times for various functions are severely limited at the current staffing levels. Some of the HR programs that are impacted include hiring, training, management consultation and employee relations support, occupational health clinic, as well as classification and compensation issues.

Employee Recruitment, Engagement and Retention Strategies

(Highlighted Issue – Page 99 for additional information)

INFORMATION TECHNOLOGY

Technical Staff Recruitment and Retention

The Information Technology (IT) Department has experienced increasing challenges in the hiring and retaining of qualified IT professionals. Qualified individuals are routinely demanding pay rates, beginning at or above mid-step of the established job salary range. Additionally, due to competition from private agencies and pay rates above City ranges, the Department continues to struggle to retain knowledgeable and experienced technology staff. This staff turnover is impacting IT internal service to City Departments.

Cyber security is one of the highest priorities for the IT Department to protect City systems and data. As technology usage expands in the City and data moves to online cloud storage, the operational complexity to maintain security increases. The availability of highly skilled individuals is very low in the private sector, which continues to recruit City staff. The IT Department has a difficult balance to provide required cyber-security training to staff and then retain the individuals long-term. To address this issue, IT has worked with the Human Resources Department to create specific job titles and pay ranges for technology security and upper management positions. Salary issues hopefully can be addressed by the HR compensation study that is currently taking place and expected to be completed in 2023.

Growing Demand for Technology
(Highlighted Issue – Page 95 for additional information)

MAPS OFFICE

Project Cost Increases new

Since 2021, global supply chain issues, price increases, and long lead times for material delivery continue to plague the construction industry, resulting in extended project schedules and overruns. Global events such as rising energy costs, tariffs on construction materials, major weather events, the war in Ukraine, and ongoing COVID concerns all have a significant impact on the construction industry.

Nationwide, the inflation rates for materials were 41.2% in 2022 and 31% in 2021. The Oklahoma City construction market has 20-40% price increases on materials and a 6.7% increase in labor costs in 2022. Consequently, cost estimates are becoming difficult to predict and can lead to higher bids than expected. As a result of cost uncertainties, the MAPS 4 Fairgrounds Coliseum construction contract only received two bids, compared to the 4-6 bids previous large MAPS projects typically received. The Fairgrounds Coliseum contract was awarded $23 million, or 22%, over the estimate.

MUNICIPAL COUNSELOR'S OFFICE

Increased Client Needs

To maintain and increase a high customer service level for the City, the Municipal Counselor's Office has identified additional resources needed that will result in an increase of operating costs. The resources include creating two new full-time positions.

One full-time employee has been covering the responsibilities of two positions in the Criminal Justice Division. The dual role can no longer be maintained by one employee. An additional Assistant Municipal Counselor I position is necessary to appropriately delineate the separate positions as this division continues to process approximately 150,000 citations per year.

To continue to provide efficient and seamless services to City departments, the Office faces the need to increase the number of attorneys in its Civil Branch. According to the Greater Oklahoma City Chamber's "2022 At A Glance", the region containing Oklahoma City continues to be one of the fastest-growing populations in the country. As Oklahoma City's population continues to grow City departments will face increased needs. An additional Assistant Municipal Counselor I position will allow the Office to respond to department needs in a timelier fashion. This will also further provide for succession planning within the Civil Branch.

Increased Capital Needs

Employee safety is always a matter the City takes seriously, and the Office has a need to install additional safety features for its employees.
In the Civil Branch, located within City Hall, this would include:

- Replacing the standard glass at all entrances with shatterproof glass. The Office currently has magnetic door locks requiring a badge for entrance, but this additional feature would help prevent an individual with malice intent from gaining access to the offices.
- Replacing the clear plastic at the reception area with shatterproof glass. The reception area currently has the same clear plastic that was installed during the COVID-19 pandemic. Replacing this with shatterproof glass would add a layer of protection to employees who work in the reception area and are the Office's first line of contact with residents.

MUNICIPAL COURT

Potential Relocation of the County Detention Center

Voters have approved the construction of a new Oklahoma County Detention Center and the new location continues to be a concern for Municipal Court. Stakeholders have been tasked with identifying solutions to relocate the jail or use the existing location. Prior to the pandemic, City prisoners were housed in the Oklahoma County Detention Center and were transported daily to and from Municipal Court by means of walking across the street in the custody of the Oklahoma City Police Department Court Detail Unit.

If City defendants are placed in a detention facility on a site away from Municipal Court, the Police Court Detail Unit will be required to transport prisoners from the Detention Center to Municipal Court using vehicles. If the jail is relocated or other detention services are contracted, audio-video equipment will be needed to conduct court hearings at the new facility via secure video link for cases that do not require a personal appearance in the courtroom. This will require additional funding in an amount dictated by the distance between the Detention Center and the Municipal Court. If the jail is relocated outside of the downtown area, the City will need to consider the costs associated with the purchase of sufficiently sized vehicles that are appropriate for prisoner transports, the potential increase in staff needed to transport prisoners, and the increase in staff time associated with travel and/or frequency of trips.

Enhanced Technology

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

Municipal Court will launch an online driving school registration process in FY23. The Municipal Court would like to offer additional processes online for the public to show proof of compliance for citations issued for No State Driver's License in Possession, Expired Tags, Failure to Show Proof of Insurance, etc. Municipal Court estimates the cost of development would be approximately $75,000, plus annual maintenance costs.

Municipal Court implemented the existing court case management system in 2016. However, the software purchase contract was executed in 2004, making the technology dated and it is a shared system for multiple jurisdictions across the nation. The design concept limits system customization for situations that are unique to Oklahoma City Municipal Court. Additionally, the vendor offers limited after-hours technical support. Municipal Court will work with the Information Technology Department to determine an estimated cost and develop a Request for Proposals.

Criminal justice reform initiatives have changed the landscape in how courts are handling cases. However, the deployment of cite and release efforts makes it difficult to maintain the most accurate offender history for the Oklahoma State Bureau of Investigations, as required by statute. Municipal Court would like to purchase a Livescan device, which would be very beneficial for collecting fingerprints from individuals who may have only received a citation and released in the field for a reportable offense. The estimated cost of purchasing the equipment, software, and adequately training staff would be approximately $35,000, plus annual maintenance costs.

PARKS AND RECREATION

Infrastructure

City parks, open spaces, trails, and attractions improve our physical and psychological health, strengthen our communities, and make our city and neighborhoods more attractive places to live, work, and play. The Parks and Recreation Department is committed to meeting the residents' desire to have well-maintained parks and to provide quality opportunities to promote healthy living by providing convenient, attractive, and relevant options to enjoy Oklahoma City's parks, open spaces, and cultural and recreational facilities.

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

1. Modernized facilities will be more inviting, comfortable, and enticing for residents to use for recreation programs and purposes. Upgrades to existing facilities could include improved lighting, the addition of windows, air conditioning, improved entry ways, security monitoring, energy efficiency improvements, and better accessibility for all populations.

2. Installing technology and highspeed Wi-Fi in existing community recreation facilities reduces barriers to technology and increases access for residents. Residents can utilize the community center Wi-Fi to pay utility bills, check personal email accounts, apply for jobs, register for parks and recreation programs, and stay connected to the community.

3. Changing demographics in the community requires the City to ensure it meet the needs of the senior population. Their specialized needs include facilities with enhanced accessibility, security, safety, lighting, and age-specific recreational activities and amenities that create a positive and welcoming environment. Existing pre-MAPS senior facilities lack most of these qualities and need to be brought up to current standards to be comparable to the MAPS 3 and MAPS 4 centers. These facilities should be evaluated to determine if they have outlived their useful life and should be replaced with a modern senior facility.

4. Existing aquatic facilities are beyond their intended lifecycle and need to be completely replaced or modernized. All spray grounds need to be renovated with water circulation systems that would save the City over $300,000 annually in water costs. Each community pool needs to be resurfaced and new concrete decking surrounding the pools needs to be installed, in addition to updating water filtration and circulation systems to provide better energy efficiency, water treatment, and consumption. The Family Aquatic Centers are outdated and need significant renovations and upgrades to be safe and attractive places for families to want to play and recreate.

5. COVID-19 has had a devastating impact on the economy and is affecting third-party partners who operate City facilities. Some partners have been able to seek temporary financial assistance through federal stimulus bills, but the economy is not expected to fully recover for up to five years. If federal stimulus programs are not continued during a prolonged recovery period, third-party partners will likely seek financial relief from the City to help them recover until their operations get back to pre-COVID levels.

6. One percent of the funding for new capital projects is dedicated to the incorporation of public art into the project. The Department has new works of art being installed in many of parks as part of this initiative, but corresponding funding has not been identified for the long-term maintenance of this art.

Several smaller existing recreational facilities will be replaced with regional health/wellness/recreation centers that include indoor aquatic facilities in the coming years. The large regional centers will complement the MAPS 3 and MAPS 4 Senior Health and Wellness Centers by allowing the Parks and Recreation Department to substantially improve the services offered to all ages of the City's population. These centers will promote quality recreational and cultural opportunities, and healthy living habits by acquainting youth with healthy eating and exercise practices, as well as offering additional locations for a growing population of active senior adults to gather.

The MAPS 4 program will provide funding for some of the needed infrastructure updates to existing assets, which are all over 20 years old, and recreation centers, which were built in the 1960s or before. However, MAPS 4 funds for parks are limited to programming enhancements and improvements within community and neighborhood parks and two specified soccer facilities. Many of parks infrastructure needs are in regional, special use, or nature parks that are not eligible for MAPS 4 funding.

Operating and Capital Maintenance Costs

The City's operating budget relies heavily on sales tax, which fluctuates with the economy and poses greater challenges for the City than if the operating budget were supported by more consistent and stable sources, such as property tax. Without a consistent and reliable source of revenues to support operations and maintenance, these types of fluctuations in staffing and levels of service will continue, negatively affecting the confidence and satisfaction of the public. This will be a more critical immediate challenge, as the Department expects its operating base may continue to be unstable for years as the economy recovers back to pre-pandemic levels.

Although the City is continuing to add new and exciting recreational opportunities for residents through capital improvement programs, funding to support the ongoing maintenance of new elements has not been added proportionately to the operating budget. Capital projects such as those in the MAPS, Better Streets Safer City and GO bond programs, and the enhanced landscaping of the Oklahoma City Boulevard have resulted in new operational and capital funding needs not currently budgeted or planned for as projects are planned for and completed.

Without an avenue to stabilize the Department's budget through economic downturns and additional budget allocations for new recreation elements, financial pressures to continually provide outstanding services to residents will increase. Over the last three years in the Resident Survey, residents have prioritized opportunities for improvement in parks as:

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

The Parks Department strives to provide top-tier services to residents, but this requires an operating budget that can support existing park resources as well as the addition of new capital projects.

Staff Recruitment and Training

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

In the aftermath of the COVID-19 pandemic, the Parks Department has struggled to recruit and hire talented new staff to get back to pre-pandemic staffing levels. Without those staff, the Department is unable to offer the level of programs and services to residents that were available before the pandemic. The Parks Department needs to be able to consider new employment benefits to be competitive with other employers in the job market.

PLANNING

Comprehensive Plan Implementation

The citywide Comprehensive Plan (plan**okc**) was adopted by the Planning Commission and the City Council in 2015 after an extensive effort that lasted several years and involved over 20,000 community members. The Plan establishes goals for guiding sustainable and healthy growth of the community and economy, while protecting and enhancing residents' quality of life. The Plan specifies multiple actions, strategies, and initiatives to further develop and grow the economy and tax base, fully utilize existing properties and infrastructure, maximize disaster response capacity, advance environmental sustainability, improve connectivity and compatibility of new development, and prevent the deterioration of commercial districts.

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

• *Affordable Housing Funds*

The Strategies to Reduce Homelessness and Housing Affordability studies completed by the Planning Department in 2021 articulate the need for increased investment to provide affordable housing for the 40% of the community that earn less than 80% of the area's median income. A Housing Affordability Implementation Plan (HAIP) will be completed by 2024 and will establish and prioritize housing investment and program needs for the City and community partners. Funds for affordable housing are being provided by the MAPS 4 sales tax. However, the need for affordable housing is great and substantial funds for construction and rehabilitation will be needed.

• *Plans and Studies*

The Planning Department is charged with keeping plan**okc** current to maintain its effectiveness and applicability. This involves updating studies done for plan**okc**, so that staff can re-evaluate the effectiveness of the Plan's land use typology and other policies as the City grows. In addition, an effective long-term planning approach involves the creation of more detailed area or functional plans used for identifying needed infrastructure, zoning changes, and other localized policy and program changes. Such plans have been highly useful in identifying and prioritizing need. However, more funds are needed to cover the many areas of the City in need of these plans. Examples of plans or studies needed include a transportation infrastructure plan, a new cultural plan, and plans/studies for addressing air quality and mitigating impacts of climate change. Grant funds are occasionally obtained for planning and implementation efforts, but grants cannot supply all funding for future consulting needs.

• *Neighborhood and Commercial District Revitalization Program*

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

The Strong Neighborhoods Initiative is no longer an experimental program. In the nine years since its inception, it has proven to be a steady and effective force influencing neighborhood turnaround and stability. Up to now, SNI has been funded solely through federal funds. Additional City funds for SNI in the amount of $500,000 per year would benefit the City by allowing expansion of operations for greater benefit. Given its proven effectiveness and the ever-present need to stabilize older neighborhoods, this would be a sound investment in the core of the City.

POLICE

Real-Time Crime Center new

A Real-Time Crime Center (RTCC) is a nationally recognized tool for addressing crime across a jurisdiction. These centers utilize personnel combined with technology to rapidly identify criminal suspects and coordinate a law enforcement response to apprehend the suspects or disrupt the crimes as they occur. An RTCC allows for a more targeted approach to law enforcement. Where previous law enforcement methods utilized occasionally vague descriptions of suspects, an RTCC can identify actual suspects, preventing many negative contacts with community members and identifying only those engaged in criminal activity. An RTCC uses a combination of commissioned officers, crime analysts, and technology to carry out their duties. Crime analysts are trained in identifying trends and activities, while commissioned officers are familiar with the field response of operational units. Technology utilized will include License Plate Reader Systems (LPR), Closed Circuit Television Systems (CCTV), and other law enforcement and open-source software. An RTCC will utilize software to allow for community integration of cameras, floor plans of commercial locations, and direct communication tools. The Police Department requires a site to place the Center and funding to purchase needed equipment and subscribe to needed services. The RTCC will have an annual budget of approximately $1.25 million, in addition to the site cost of roughly $8 million.

Storage Facility

The Police Department's specialized equipment, such as the Police and Fire Mobile Command Center, Tactical Trailer, and Bomb Squad require a secured, sheltered facility for storage. Police has outgrown its current facilities located on SW 15th Street and South Portland Avenue and the general maintenance facility at 100 North Shartel Avenue. Additional storage space is necessary to secure and store equipment and increase its longevity. The estimated cost of additional storage space is $3.5 million.

New Regional Multi-Agency Coordination Center

The current Regional Multi-Agency Coordination Center is an underground facility built 57 years ago as an Emergency Operations Center during the height of the Cold War to withstand the effects of a nuclear explosion. Since then, the space has been repurposed and adapted for other purposes it was not originally designed for. A new Regional Multi-Agency Coordination Center designed to meet specific needs and built above ground to withstand the impact of a tornado can address the many deficiencies of the existing facility. It can be designed with high ceilings and incorporate state-of-art technology, including easily seen digital displays to provide situational awareness and a common operating picture. It can be designed to allow the addition of internal workspaces for an expanding temporary or permanent emergency management workforce. New easily accessible life support and mechanical systems will allow for reduced operating and maintenance costs and ease of repair and replacement later. The estimated cost of a new facility is $8 million.

PUBLIC INFORMATION AND MARKETING

Action Center Technology

Public Information and Marketing (PIM) is exploring the feasibility of replacing the City's Action Center number, 297-2535, with 311. 311 is a non-emergency phone number that people can call to get information about services, file complaints, or report problems like potholes. It functions just like a 7-digit number but is easier to remember. It is used by large cities across the country, including many of Oklahoma City's peers. The City currently uses two other short phone numbers for both emergency and social or mental health services – 911 and 211. The cost to implement the phone number is anticipated to be around $50,000, which was secured in FY22. When 311 is implemented, the projected annual fee for the phone number will be roughly $10,000. Along with acquisition of the new phone number, PIM will need to purchase and implement a customer request management software program that will help it to better automate and streamline resident service delivery. Modern 311 and Customer Request Management (CRM) tools have increased the capabilities of the traditional 311 phone number, creating fully integrated internal and external communication and request maintenance tracking tools.

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

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

City Website Design and Content Management System

To continue to better serve residents and meet their expectations, the City must find ways to improve its official website. Fluid changes in the online landscape also impacts resident expectations for digital services. The last major redesign of the City's website took place in 2014. Because of these changes and the lessons learned from not comprehensively updating the City's website for nearly 20 years before the last redesign, PIM must plan for more frequent improvements to meet not only the users' expectations, but also improve how it delivers online services.

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

Office Utilization and Space for Staff

The PIM office needs to be reconfigured/renovated to foster better productivity, reduce distractions, increase privacy, improve safety, add workspaces, and create more meaningful collaboration. The office space has not been updated for approximately 20 years and office trends have changed significantly since then. PIM's goal is to create a more welcoming space to boost employee wellbeing, morale, and efficiency. Staff is currently separated by a mix of small offices and aging cubicle desk and walls. This makes it challenging to accommodate customers, particularly in the Special Events Office. The renovation should include 10-12 new desks and related office furniture, including permanent or modular walls.

PUBLIC TRANSPORTATION AND PARKING

OKC Moves Implementation new

In the fall of 2023, EMBARK will launch Phase I of the OKC Moves Transit Plan which integrates the Northwest RAPID service with the current fixed route system, realigns some existing routes and contemplates limited-service additions. Full implementation of OKC Moves addresses regional growth, integration with the MAPS 4 Program's Transit project, supports economic development, and responds to customer and community priorities. Once fully implemented, Oklahoma City will have a transit system capable of exceeding today's service demands and meeting tomorrow's mobility needs. The OKC Moves implementation costs included in this Forecast Issue are not inclusive of all OKC Moves recommendations, but rather the incremental implementation of OKC Moves expected over the next five years.

- *Improved Frequency*
  Providing meaningful mobility options requires useful, accessible, and reliable services. The OKC Moves recommendation will improve the frequency on most routes, reduce wait times at stops and make more efficient trip connections. Improvements include increasing the frequency of Saturday service from 60 minutes to 30. Research shows that improved frequency correlates with higher ridership and greater diversity of customers. The estimated annual operating cost is $1.7 million.
- *Improved Service Span*
  OKC Moves recommends increasing operating hours on existing EMBARK routes. Shift workers play a critical role in supporting the region's economy. Except for five weeknight bus routes, existing research reveals that EMBARK's current service span is inadequate to meet the commuting needs of its core ridership – a population already burdened by poverty-level annual household incomes, further exacerbating their travel options and low earning potential. Improvements would include expanding weeknight service hours to 10 pm on all routes with the option to later extend to midnight and expanding weekend service hours to midnight. The estimated annual operating cost is $4.3 million.
- *New Transit Headquarters and Maintenance Facility*
  The OKC Moves recommendations for service expansion are incremental and require flexibility to integrate existing transit services with new mobility options on the horizon from MAPS 4 Program and the Regional Transportation Authority of Central Oklahoma (RTA). The proposed incremental improvements can be implemented in unique packages. However, full implementation of OKC Moves and the addition of MAPS4 bus rapid transit (BRT) are contingent on constructing a new, expanded, operations and maintenance headquarters. EMBARK's current facilities exceed capacity. The estimated one-time capital cost is $54.0 million.
- *MAPS 4 BRT /EMBARK RAPID*
  Planning Studies are underway to identify the corridors the new MAPS 4 / EMBARK RAPID BRT will serve. Once planning studies are complete, the MAPS 4 Implementation Plan anticipates the improvements required for additional BRT services will be constructed and operational by 2029, indicating some additional operational funding will be needed in 2028 to begin standing up the BRT operations. Each BRT corridor is estimated to cost approximately $4.5 million annually to operate. Improvements would include adding and restructuring routes to serve more places with more crosstown service and integration with the upcoming MAPS 4 RAPID BRT routes. Capital costs include fleet expansion and implementing EMBARK's transit operations and maintenance facilities master plan. The estimated annual operating cost is $8.9 million, and the estimated one-time capital cost is $55.0 million.

Capital Maintenance new

Maintaining safe, efficient, and reliable services requires proactive investment in the backbone and heart of transit services – maintenance and operations. Over the next five years, $19 million will be needed to care for the diverse range of our assets and infrastructure. Through our transit asset management plan, EMBARK prioritize the most critical work to keep our system safe and reliable, but the Department cannot presently fund all the work needed to maintain the system in an ideal state of good repair.

Public Transportation System Investments
(Highlighted Issue – See page 97 for additional information)

PUBLIC WORKS

Funding for Bridge and Drainage Infrastructure

Bridge infrastructure includes 587 bridges owned and maintained by the City, with 75% needing some type of maintenance or repair. One bridge in the City is currently closed to traffic and the list of maintenance needs is increasing. There are 39 bridges that have been identified as requiring upgrades to maintain or improve the life of the bridge. There are 132 bridges requiring reconstruction or replacement to improve the vertical clearance, horizontal clearance, or roadway width to meet updated requirements. The primary funding source for bridge maintenance and improvements is GO bond funds. The 2007 authorization included $20 million for 17 listed projects and the 2017 authorization included $27 million for 13 listed projects.

Drainage infrastructure includes the Oklahoma River's dam and lock systems, other City-owned drainage channels, and various Stormwater Quality Division assets. An initial drainage basin study is currently underway to develop a long-term drainage capital improvement plan. Oklahoma River maintenance includes dredging activities currently estimated at $2.5 million over the next five years. Additional river maintenance activities include rip-rap maintenance, cleanup of waste and debris, and emergency response operations. The three Dam and Control Houses on the river will require repairs and refurbishments estimated at $2.25 million over the next five years. The State of Oklahoma has indicated that the Oklahoma City storm water discharge permit will be impacted within the next five years with new storm water quality requirements. Improvements are conservatively estimated at $13 million over the next 5-10 years.

There are two primary funding sources for drainage infrastructure improvements in Oklahoma City: GO bonds and the Storm Water Drainage Utility Fund. The GO Bond program provided $33 million for 10 listed projects in the 2007 authorization. During the planning for the 2017 bond program, 152 drainage projects estimated at $497.5 million were considered. Only 21 projects totaling $62.1 million were included. Storm Water Drainage Utility funds have primarily addressed the needs of storm water quality, channel cleaning, and maintenance. They can be used on certain capital projects but are not a primary source of funding.

Recruitment and Retention

Over the past few years, several positions have proven difficult to fill and retain. Positions of particular concern are skilled construction trades, engineers, and positions requiring a Commercial Driver's License (CDL). For skilled construction trade workers, there is a limited candidate pool in the Oklahoma City metro area. Public Works currently has around 25 vacancies of such positions and recruitment efforts have not been able to fill that need. The Streets, Traffic, and Drainage Maintenance Division is supplemented with temporary work staff, as needed, although the Department's preference is to fill vacant full-time positions. Other municipalities and temporary staffing agencies have reported similar difficulties in finding candidates for such positions. The Department plans to explore additional options, such as underfilling vacant positions as needed, continuing the in-house CDL training program, and creating positions with automatic promotions upon achievement of certificates and licenses.

For engineers, the problem appears to be different. There are talented engineers in the local market, but the Department has found it difficult to compete in terms of compensation. Public Works, as well as the Utilities Department, has seen significant attrition in engineering staff who have found higher paying positions in the private sector and with other public sector agencies, including the Oklahoma Department of Transportation (ODOT) and surrounding municipalities.

The Human Resources Department is near the completion of a Classification and Compensation Study. The Department is hopeful that the results of the Study will address both the competitive salaries needed and the recruitment structure for both engineers and skilled trade workers.

Streets Infrastructure

General obligation bonds have been the primary source of funding for street infrastructure. Additional temporary funding for streets infrastructure was provided by the Better Streets, Safer City sales tax program. These two programs primarily address capital related infrastructure and not the ongoing maintenance needs that are funded in the Public Works operating budget. The funding provided from the Better Streets Safer Cities sales tax for streets projects will be fully allocated in 2022. In the past three fiscal years, Public Works has been able to resurface an average of 100+ miles of streets, nearly doubling efforts of past years because of the temporary sales tax program.

The condition of streets in Oklahoma City has seen steady improvement, as evidenced in the Paving Condition Index (PCI). The 2022 Resident Survey indicated an improvement in satisfaction, although the overall number remains very low compared to our peer cities. The Survey also continues to identify the condition of City streets as being the number one issue of residents.

A dedicated funding source for streets improvements and maintenance would allow the Department to repair or replace already identified infrastructure needs that are currently unfunded. Some of the needs include street resurfacing projects, continued implementation of radar detection traffic intersection controls, traffic striping, battery backup for signalized intersections, and additional maintenance staffing.

Hyper-inflation for Infrastructure Construction Projects new

The Public Works Department has seen significant cost increases during recent bid openings for new projects including street and facilities projects. According to *Engineering News Report*, FY22 construction costs increased 7.6% and building costs increased 13.5%. CBRE, a global real estate firm, forecasts a 14.1% year-over-year increase in U.S. construction costs by the end of 2022, due to a litany of pressures including labor shortages, inflation, supply chain disruptions, ongoing pandemic reverberations, and the war in Ukraine. The projected increase exceeds last year's 11.5% rise and well outpaces the historical average gain of 2% to 4% per year.

These cost pressures will make it difficult to complete 2017 GO bond and sales tax projects within the previously established budgets, which were developed seven to eight years ago. Rapidly escalating costs will also present challenges in developing cost estimates for the next forecasted GO bond authorization.

UTILITIES

Long-Term Water Issues

(Highlighted Issue – See page 96 for additional information)

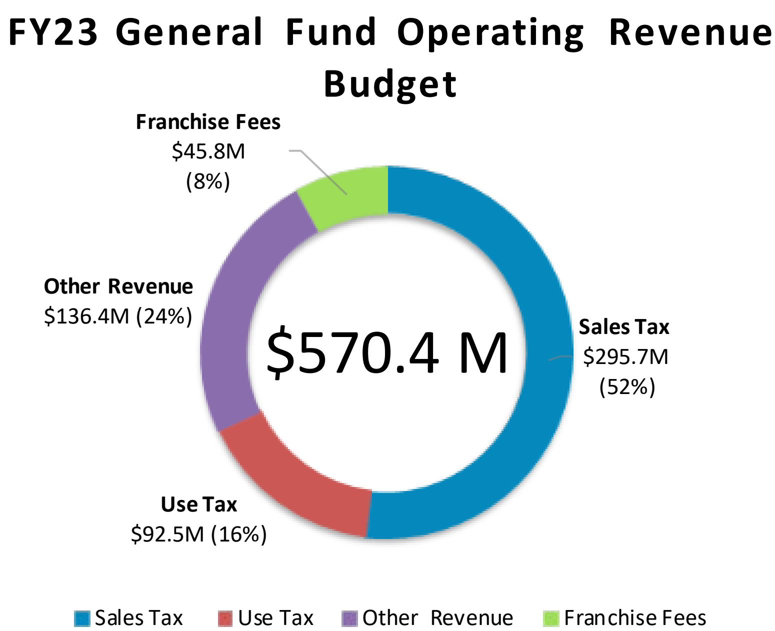
SECTION 6

GENERAL FUND REVENUES

TRENDS AND FORECAST

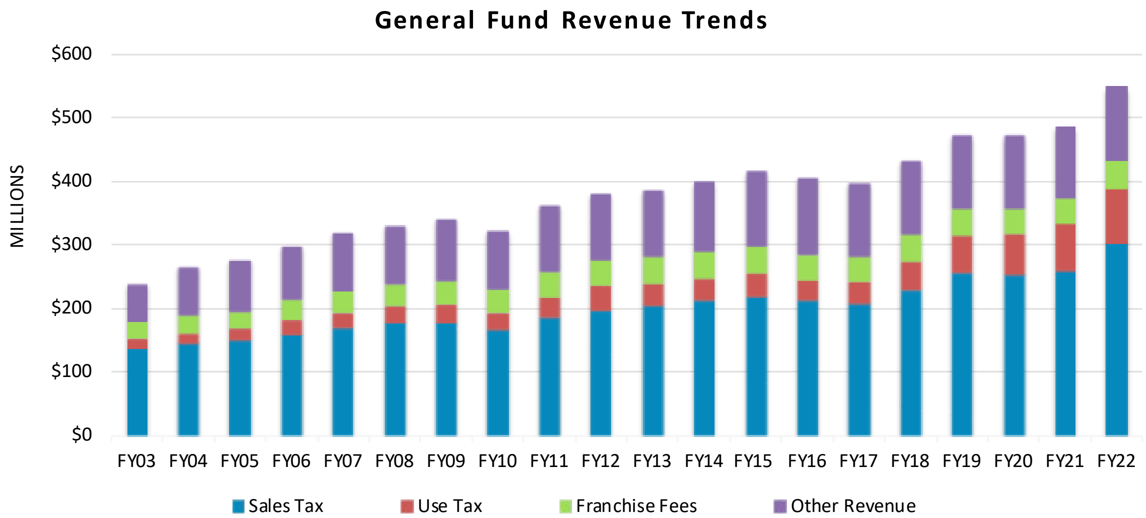
OPERATING REVENUE OVERVIEW

The General Fund is supported by a wide array of revenue sources. In fact, there are literally hundreds of individual revenue sources that contribute to the General Fund. Similar sources are combined into categories and shown in the graph below of the FY23 General Fund operating revenue budget. Revenue from the eight-year MAPS 4 sales tax is initially deposited in the General Fund, and then immediately transferred to the MAPS 4 Program Fund to be used for capital purposes. These are non-operating funds for capital projects and are therefore not included in this financial outlook. While it would be impossible to forecast every possible area of revenue growth over the next five years, this report attempts to project the most likely growth patterns in revenues. Economic cycles of growth and contraction are expected over the next five years, but rather than projecting the fiscal year in which each cycle will occur, the growth projections were smoothed over the five-year outlook. With over half of the General Fund budget coming from sales tax, it is the key revenue source. Continued stability of the General Fund will be contingent upon growth in sales tax revenues. For that reason, a significant part of this section will focus on sales tax revenue.



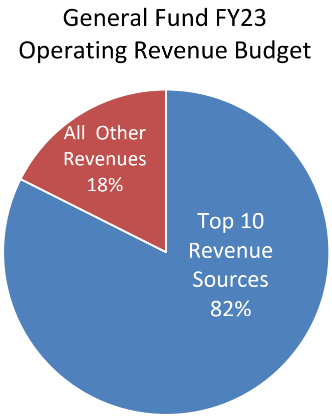
REVENUE TRENDS

The chart below displays the revenue growth trends in the General Fund over the last 20 years. Sales tax growth, the largest category in blue, was driven by changes in population, economic health, movement of retail operations to Oklahoma City and sales tax rates. Use taxes, in red, has grown over 465% in the last 20 years. Use tax is levied on goods that are bought in other states and then imported to Oklahoma for use. Use tax has seen exceptional growth over the last six years from online sales as vendors have begun collecting and remitting tax due to changes in State law and further driven by online sales during the COVID-19 pandemic. Additionally, both sales and use tax collections has grown since FY18 due to a permanent ¼ cent increase in the tax rate. Franchise fees, in green, have grown at a steady rate, with growth largely attributed to the remitters customer base, and in some cases, such as electric, gas, water and weather have influenced consumer consumption. The other revenue category, in purple, is made up of various sources, but is also influenced by population growth, which is reflected in building permit revenue, licenses, fees, other taxes and other services.



TOP 10 GENERAL FUND REVENUE SOURCES

When combined, the top 10 budgeted line-item revenues account for 82% of the General Fund revenue budget. Two of the top 10 revenues are taxes, sales tax and use tax. These two taxes make up 68% of the General Fund budget. Revenue from franchise fees accounts for two of the top 10 revenue sources, which comprise 5% of the budget. The OG&E franchise fee is consistently the third largest revenue source for the General Fund. The Other Revenue category contains the remaining six top 10 revenues, which range from court fees to building permits and wage adjustment from the Public Safety Sales Tax Funds. Wage adjustments are payments to the General Fund from the dedicated ¾ cent Sales Tax for Public Safety, that when approved by voters, provided compensation increases for uniformed police and fire positions that were funded in the General Fund.



Revenue Source	FY23 Budget	% of GF	Category
Sales Tax	$295,700,576	52%	Sales Tax
Use Tax	$92,472,879	16%	Use Tax
OG&E Franchise Fee	$23,791,566	4%	Franchise Fees
Fire Wage Adjustment	$12,770,847	2%	Other Revenue
Police Wage Adjustment	$9,805,559	2%	Other Revenue
Public Works TMS Charges	$9,219,072	2%	Other Revenue
ONG	$7,369,717	1%	Franchise Fees
Court Costs	$6,745,464	1%	Other Revenue
Building Permits	$6,695,656	1%	Other Revenue
Commercial Vehicle Tax	$5,570,355	1%	Other Revenue
TOTAL	**$470,141,691**	**82%**	

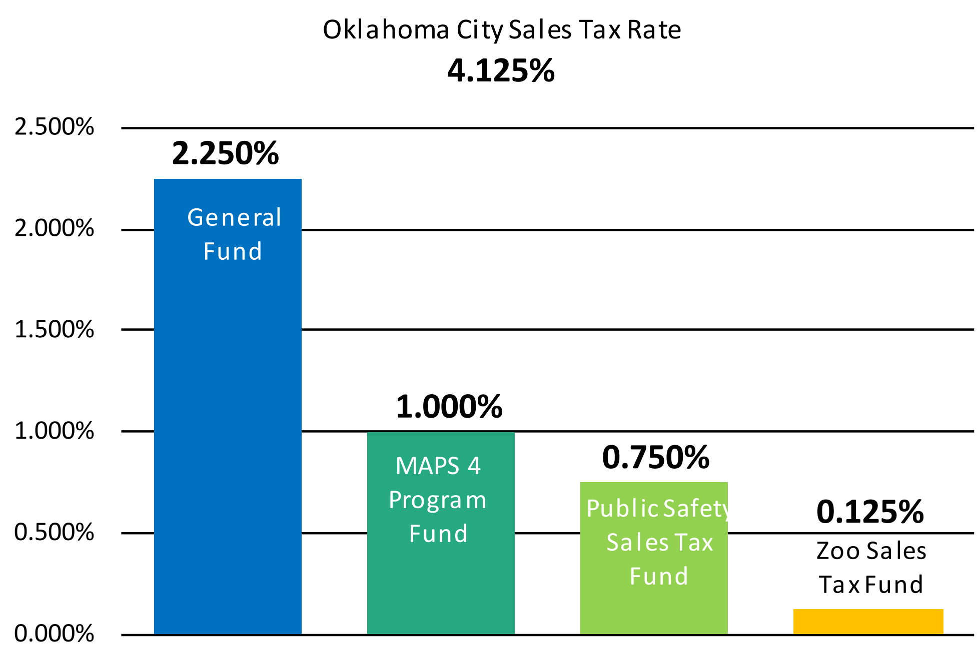
The sections that follow focus on the trends and projections of each revenue category and what may be influencing recent trends and future projections.

SALES TAX

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

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

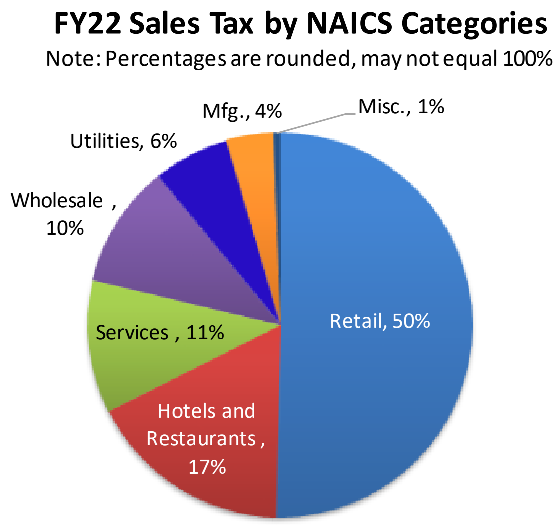
The city's 4.125% sales tax levy is divided between the various funds. The General Fund receives 2.250% and is the single largest revenue source for the General Fund, which funds day-to-day operations. In September 2017, voters passed the temporary 27-month, 1.0% Better Streets, Safer City tax to address concerns with the City's streets and to fund public safety improvements. When that tax expired in 2020, voters approved the MAPS 4 tax to extend the 1.0% for an additional eight years, thereby temporarily maintaining the 4.125% Oklahoma City sales tax rate. The Public Safety Sales Tax Fund receives 0.750% and is split evenly between Police and Fire. It is a permanent dedicated sales tax. The Zoo Sales Tax Fund receives 0.125% and is also a permanent dedicated sales tax that can only be used for capital improvements and operations at the Zoo. As previously mentioned, the MAPS 4 sales tax revenues are excluded from this forecast.

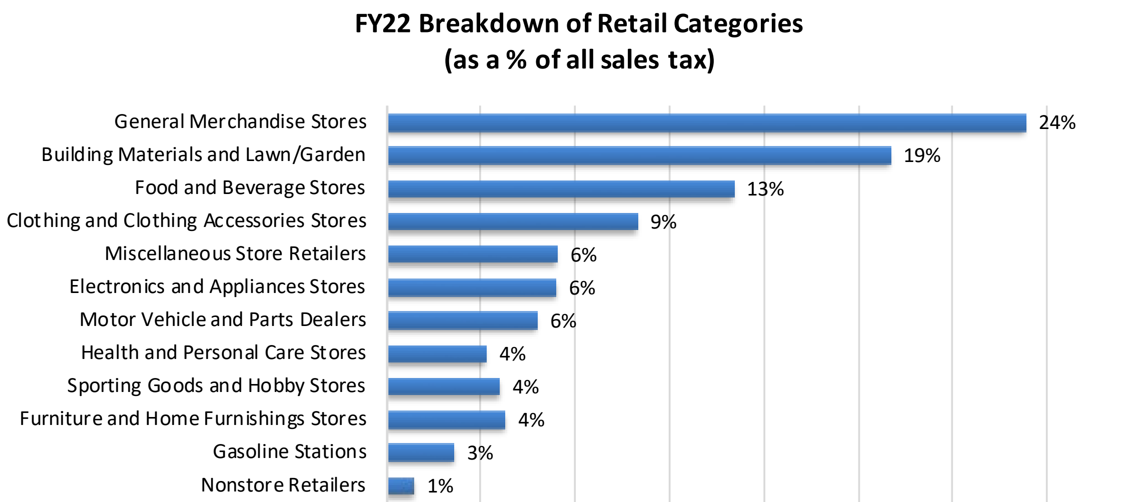


SALES TAX REVENUE BY NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS)

The OTC categorizes all vendors who remit sales tax using the North American Industry Classification System (NAICS). NAICS classifies businesses 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.

The charts below illustrate the most significant sectors of Oklahoma City's sales tax base for FY22. As shown in the pie chart, the retail sector represents about half of all taxable sales. The NAICS system allows further division within the major groups for a more granular look at the data. Because retail is such a large piece of sales tax, special attention is paid to the components within retail, which are detailed in the bar chart.



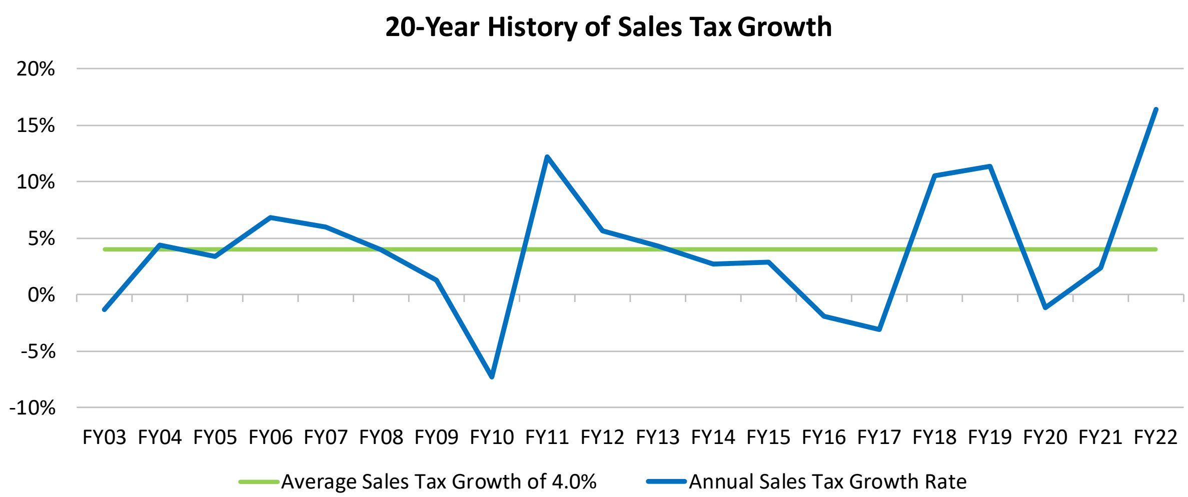


One limitation of the system is that a business can only be classified in one NAICS category, even if the business sells multiple types of goods. For example, the sales tax from a superstore (e.g., Walmart, Target, etc.) on groceries is shown as General Merchandise rather than Food Stores because most of these stores are classified as General Merchandise retailers. Likewise, the sales tax on a pair of jeans purchased from a sporting goods supplier would show under Sporting Goods rather than Apparel and Accessories.

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

SALES TAX OPERATING REVENUE FORECAST

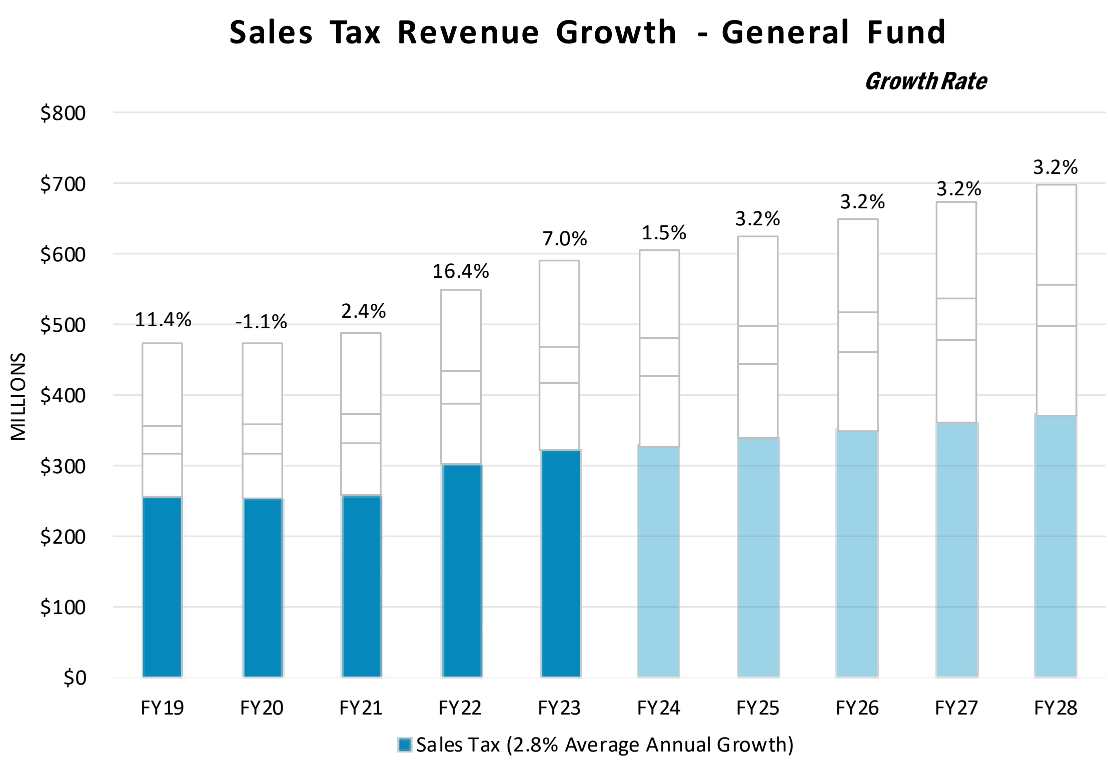
Even before the permanent ¼ cent sales tax increase that went into effect January 1, 2018, sales tax has consistently made up the majority of all General Fund revenue. Uncertainty in the economy makes projecting sales tax challenging. Some common points of inquiry are how will the national economy perform, how will the Oklahoma economy be impacted by the energy sector and the price of oil and natural gas, and how will a continued shift in consumer purchasing from local retail stores to online purchases affect sales tax collections? These questions make forecasting sales tax difficult as growth can change dramatically from year to year, as shown in the chart below.



For Oklahomans, low natural gas and oil prices are a concern as those prices result in lower exploration and production activity and decreased employment in the sector. Oil and gas have proven to have a significant impact on the local economy, even as other industries such as health care have grown. Employment in many other sectors, such as construction, manufacturing, and financial services, is influenced by the underlying strength of oil and gas industry. The trend continues to be analyzed since Oklahoma City has maintained one of the lowest unemployment rates in the nation, at an average of 4.2%, over the past 20 years.

The City consults with Dr. Russell Evans, Partner and Chief Economist at the Thorberg Collectorate, when developing sales tax growth projections. Preliminary discussions about the forecast were used in the projection for sales tax growth for the remainder of FY23 and for FY24. Based on those discussions, sales tax growth in FY24 is expected to be minor at 1.0% over FY23.

In the last four years of the forecast, Sales Tax is projected to grow at 3.2%, the 10-year average growth rate with the ¼ cent increase excluded. Excluding the FY18 rate increase from the growth rate more accurately represents the underlying change in collections. When the five years are combined, the average growth rate for sales tax is projected to be 2.8% annually. This projection results in a FY24 sales tax budget of $328.0 million, which increases to $371.9 million in FY28.

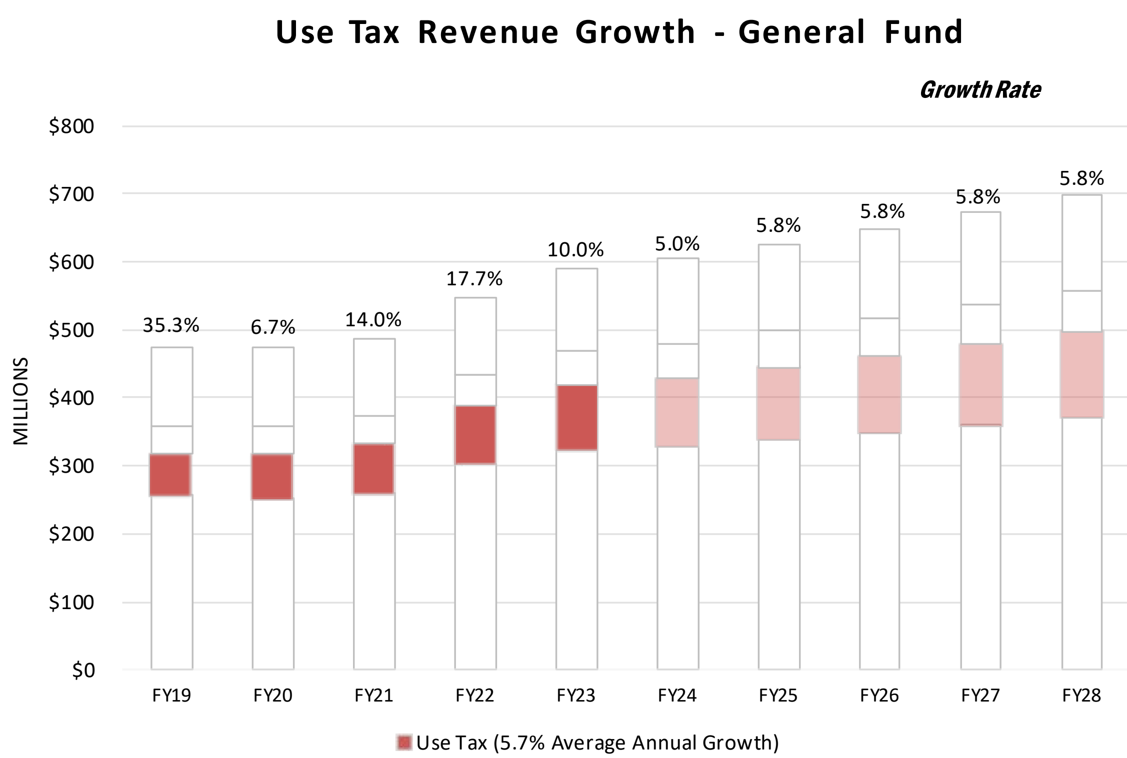


USE TAX

Use tax, which is levied on goods and equipment imported from other states for use within Oklahoma and not for resale, is the second largest revenue source in the General Fund. Sales tax on online purchases shipped to Oklahoma is levied as a use tax. Since the City began collecting taxes from online sales beginning in FY18, use tax collections have become increasingly dominated by online retail activity, and it is expected that use tax will grow to resemble sales tax more over time.

USE TAX REVENUE FORECAST

Use tax has historically been very volatile, with significant swings from declines to double-digit growth. In FY23, Use Tax is expected to grow 10.0% due to increased online purchases and the lingering effects of the permanent ¼ cent increase in the use tax rate that became effective January 1, 2018. In FY24, use tax is projected to grow 5.0% as the transition from shopping at traditional brick and mortar stores to online vendors continues. For FY25-FY28, growth is projected below the 10-year average rate (excluding the ¼ increase) at 5.8%, as use tax activity increasingly begins to mirror sales tax. When the five years are combined, the average growth rate for use tax is projected to be 5.7% annually.



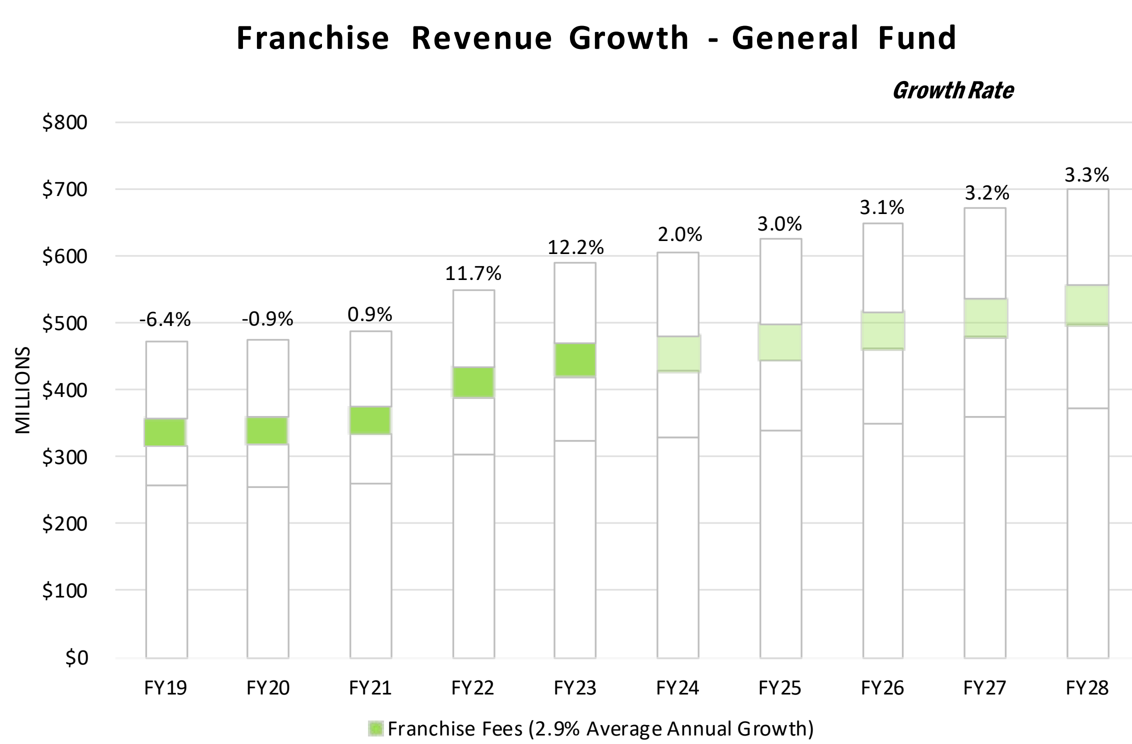
FRANCHISE REVENUES

Franchise revenues are generally derived from a levy on the gross receipts from utilities for the privilege of accessing public streets and rights-of-way and to reimburse the City for the cost of administering and enforcing the franchise. Two of the top 10 revenue sources in the General Fund are from franchise fees. Those two, Oklahoma Gas & Electric and Oklahoma Natural Gas, remit fees to the City that typically comprise about 64% of all franchise revenue and 6% of all General Fund operating revenue. In addition, Cox Cable and the City's Water, Wastewater and Solid Waste Management enterprises operate as regulated monopolies using City rights-of-way. Accordingly, these entities also make payments to the General Fund and are counted in the franchise revenues for this category.

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

FRANCHISE REVENUE FORECAST

Franchise revenue is expected to finish FY23 12.2% higher than FY22. OG&E is the largest franchise remitter and is consistently the third largest revenue source in the General Fund. From FY24-FY28, OG&E is projected to grow 3.8%. Cable franchises are expected to continue to decline over the next five years which, brings the overall average growth for franchise revenue down to 2.9% annually. The FY24 projected budget for franchise revenue is $52.1 million and increases to $59.0 million in FY28.



OTHER GENERAL FUND REVENUES

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

- **Licenses, Permits & Fees**
  Building permits are the ninth largest revenue source in the General Fund and are projected to decrease 16.6% in FY23 due to a slowdown in home construction in the current high interest rate environment. Building permit revenue is 1.2% of the total General Fund revenue budget. From FY24-FY28, building permits revenue is expected to increase 6.5% annually, the five-year average. Other revenue sources in this category include various business licenses and permits for activities ranging from garage sales to elevators. The charges in this category are designed to recover the cost of enforcement and administration of city codes, and account for 2.9% of the General Fund revenue budget.

- **Services & Administrative Charges**
  Three of the top 10 revenues in the General Fund are in this category: the Police and Fire wage adjustments and Public Works administrative charges. The wage adjustments are payments from the Public Safety Sales Tax Fund to the General Fund for reimbursement of paid Police and Fire wages. These two payments are 3.3% of the General Fund budget and are projected to grow at 2.4%, annually from FY24-FY28. Public Works administrative charges are to account for time that the Department's staff spend on projects expensed from other funds, primarily the GO Bonds Fund. Also included in this category are animal shelter, engineering, planning, recreation, police fees, parking meter fees, and inter-agency charges for services such as accounting and legal. Combined, these charges account for 12.2% of the General Fund revenue budget. Each revenue source was projected to grow based on their own historical average; overall, the category is projected to grow 4.6% annually.

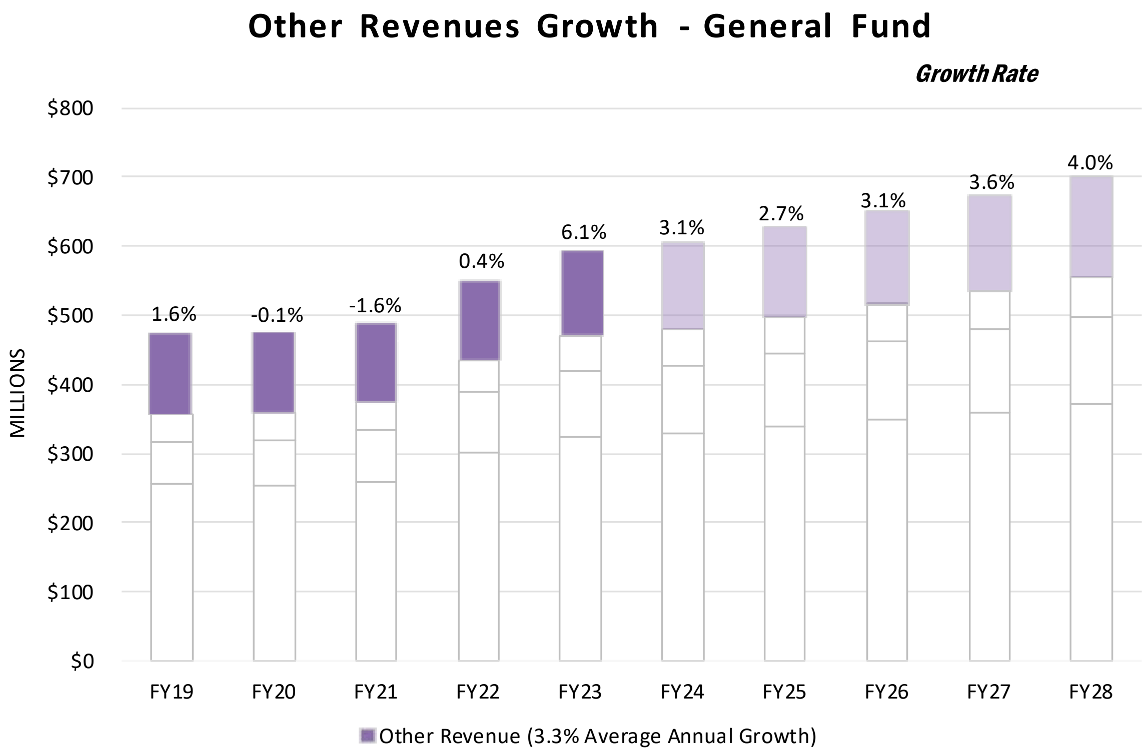
- **Fines**
  This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed for violations of other municipal ordinance, and revenue from court costs. Court costs is the eight largest revenue source, accounting for 1.2% of the General Fund revenue budget. However, court costs have been declining for the last five years due to fewer citations issued and case filings. The category is expected to continue to decline at 6.2% annually from FY24-FY28.

- **Other Revenues and Intra-fund Transfers**
  This category includes a variety of miscellaneous sources such as interest, revenues from the sale of city property, rental income, and several small transfers from various city funds. In total, these revenue sources account for 1.6% of the General Fund revenue budget. Transfers make up a small portion of the General Fund budget and are expected to grow at 1.6% annually from FY24-FY28. The Other Revenue category is expected to grow 0.4%, annually, from FY24-FY28.

- **Other Taxes**
  This category includes other taxes remitted to the City and includes tobacco excise tax, alcohol tax, commercial vehicle tax, and motor fuel tax. These taxes are collected by the State and remitted either directly to the City or passed through the County to the City. Commercial vehicle tax is the tenth largest revenue source in the General Fund budget at 1.0%. In total, Other Taxes account for 2.5% of the General Fund. This category is projected to grow 2.3% annually from FY24-FY28.

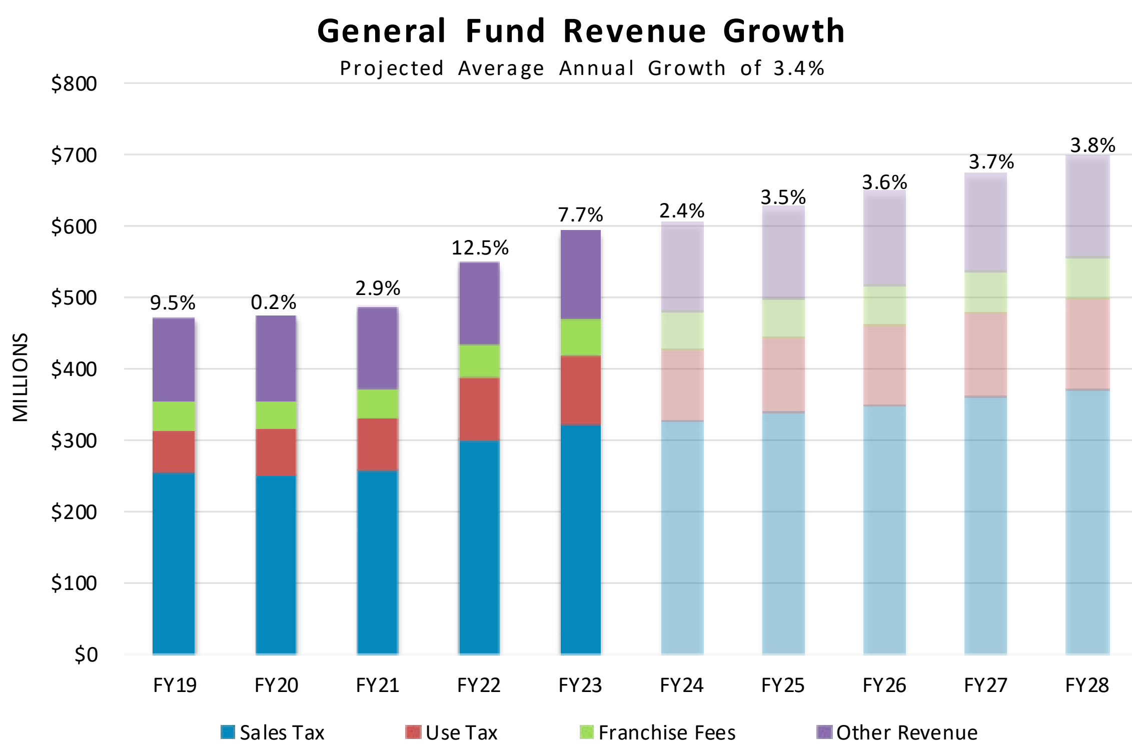
OTHER GENERAL FUND REVENUES FORECAST

Overall, this group of other revenues makes up 20.5% of General Fund revenue. Growth of 3.3% was projected over the forecast period and was largely based on long-term average growth patterns. The FY24 projected budget for other general fund revenues is $124.7 million, which increases to $142.4 million in FY28.



OVERALL REVENUE FORECAST

When all categories are combined, General Fund revenues are expected to grow at about 3.4% per year over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated revenue of $604.9 million in FY24 to $698.8.5 million in FY28.



FIVE-YEAR FORECAST

FISCAL YEAR 2024 - 2028

SECTION 7

GENERAL FUND EXPENSES

TRENDS AND FORECAST

FIVE-YEAR FORECAST

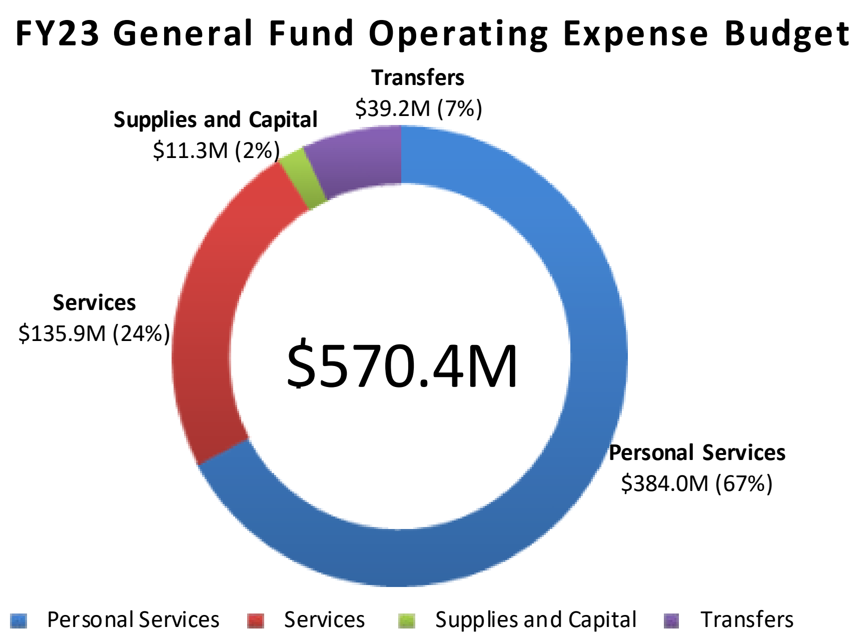
FISCAL YEAR 2024-2028

EXPENDITURE OVERVIEW

City expenditures encompass an enormous variety of goods and services for items ranging from employee salaries to sophisticated computer programs to dog food. While it would be impossible to forecast every possible area of expenditure growth over the next five years, this report attempts to project the most likely growth patterns in expenses. Economic cycles of growth and contraction are expected over the next five years; however, the growth projections do not reflect measures typically taken to balance the budget such as hiring freezes, reductions in force, or delaying capital expenditures.

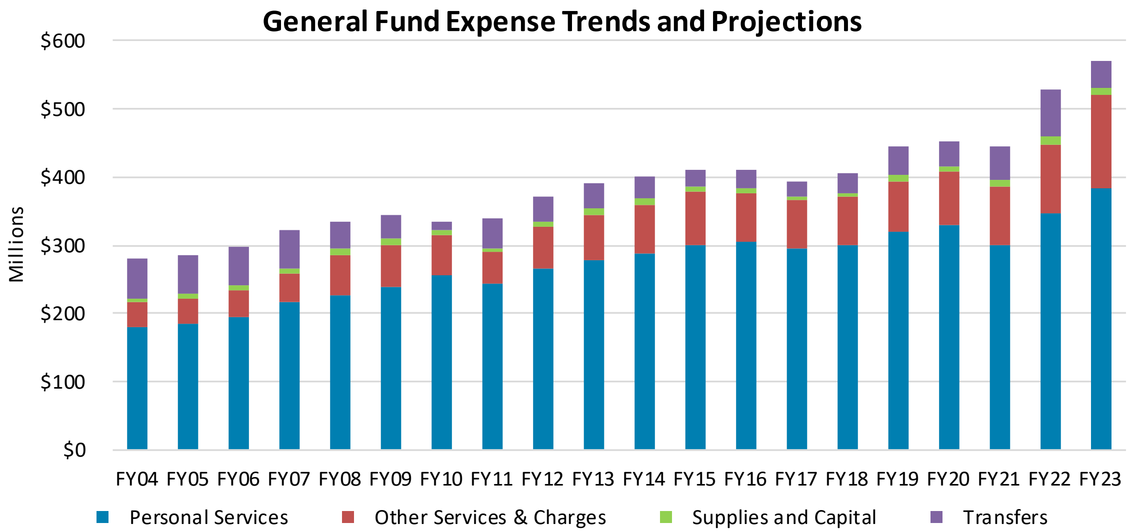
FY23 BUDGET

The City budgets according to five general categories: Personal Services, Other Services, Supplies and Capital, and Transfers. These categories also provide a convenient way to divide City expenditures to more closely examine the trends that are occurring and for making projections.



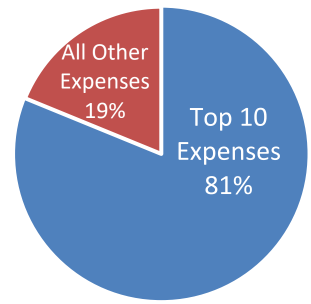
EXPENSE TRENDS

The chart below displays the expense trends in the General Fund; expenses have grown 204% over the last 20 years. Personal Services, the largest category, is driven by the number of employees and their pay and benefits and grew 212% over the past 20 years. The Other Services category has grown 389%, which was partly driven by a change in business process in FY08 that recategorized some expenses from transfers to payment for services. Another reason for the growth in this category has been the shift to contracting out services once performed by City employees, which moves the associated expenses from the Personal Services to the Other Services category. Transfers includes the movement of funding from the General Fund to other funds and City entities, such as trusts, and grew 67%. The smallest category, Supplies and Capital, encompasses the purchase of various materials and equipment and capital improvements and grew 207% over the 20-year period.



TOP 10 GENERAL FUND EXPENSES

General Fund FY23 Expense Budget



When combined, the top 10 budgeted line-item expenses account for 81% of the General Fund Operating Budget. Although not inclusive of all personal related services, four of the top 10 line-items are from the Personal Services category and equal 63% of the General Fund budget. The Personal Services items in the top 10 are salaries and wages, health insurance, retirement and pension contributions, and retiree insurance (aka Other Post-Employment Benefits or OPEB). The four largest line items in the Other Services category represent 13% of the General Fund budget and include payments to the Central Oklahoma Transportation Parking Authority (COTPA) for public transportation, payments to the Oklahoma City Economic Development Trust (OCEDT) and payments to internal service funds for Information Technology and Risk Management services and equipment. The two largest items from the Transfers category represent 5% of the General Fund budget and include annual transfers to the Oklahoma City Public Property Authority (OCPPA) for the management contract with ASM for the convention center, Paycom Center and Prairie Surf Studios; and transfers to the Capital Improvement Fund for various capital projects.

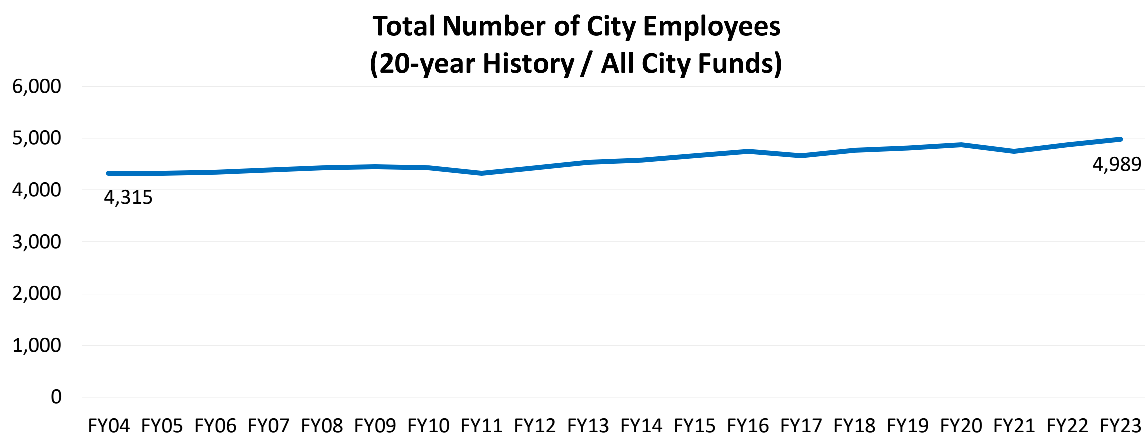
Expense	FY23 Budget	% of GF	Category
Salaries and Wages	$264,777,028	46%	Personal Services
Health and Welfare Insurance	$52,124,761	9%	Personal Services
Payments to COTPA	$28,233,355	5%	Other Services
Retirement/Pension Contributions	$27,641,862	5%	Personal Services
Chargeback - IT	$23,346,733	4%	Other Services
ASM Management Contract	$15,783,994	3%	Transfers
Payment to OCEDT	$14,497,690	3%	Other Services
Retiree Health Insurance	$13,314,341	2%	Personal Services
Transfer to Capital Improvement Fund	$12,701,555	2%	Transfers
Chargeback - Risk Management	$10,630,657	2%	Other Services
TOTAL	**$463,051,976**	**81%**	

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

PERSONAL SERVICES

At 67% of the FY23 General Fund operating budget, Personal Services are the primary driver in expenditure growth in the General Fund. Personal Services include salaries, insurance, retirement contributions, parking, uniform and tool allowances. The two main factors influencing growth are the number of employees and their pay and benefits. Four of the top 10 expenses are in this category: salaries and wages, health insurance, retirement and pension contributions, and Other Post-Employment Benefits (OPEB) which is healthcare insurance for retirees. Salary reserve, which is budget authority held in reserve to ensure that all employees are regularly compensated, is a significant budgeted item, but is excluded from the top 10 because money is not spent from these accounts.

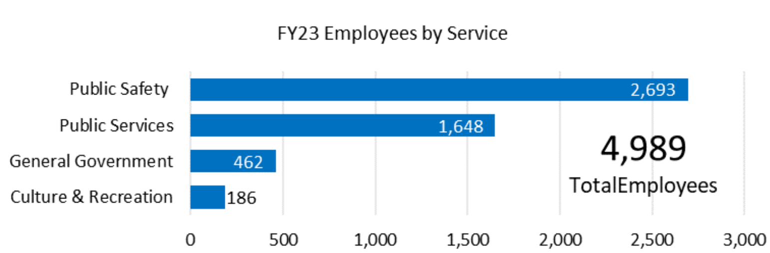
The FY23 budget increases the number of positions by 123, or 2.5%, to 4,989, with most of the increases coming from the Airports, Fire, Police, and Utilities departments.



Employee count tends to go up and down with economic cycles as shown in the chart above; but overall, the number of City employees has remained relatively stable, growing only 15.6%, or 674 budgeted positions, over the last 20 years. The City has managed to control growth by gaining efficiencies through use of technology, contracting out services to industry experts such as ASM for management of the convention center, Paycom Center, and Prairie Surf Studios venue, and reprioritizing services.

Change in Employee Count over last 20-years		
Public Safety	331.0	14.0%
Public Services	287.0	21.1%
General Government	61.0	15.2%
Culture and Recreation	-5.0	-2.6%
Total Change	674.0	15.6%

In terms of distribution of City employees among the various categories of services the City provides, the largest group is Public Safety which makes up 54% of the City's workforce and includes Fire, Police and Municipal Courts employees. Second largest, at 33% of all employees, is Public Services which includes the Utilities, Public Works, Airports, Public Transportation and Parking, Development Services, and Planning departments. General Government comprises 9% and is made up of the employees in the Mayor and City Council, City Manager's Office, City Clerk, City Auditor, Municipal Counselor's Office, Finance, Information Technology, General Services and Human Resources departments. Finally, Culture and Recreation consists of the Parks and Recreation Department and represents 4% of the total.



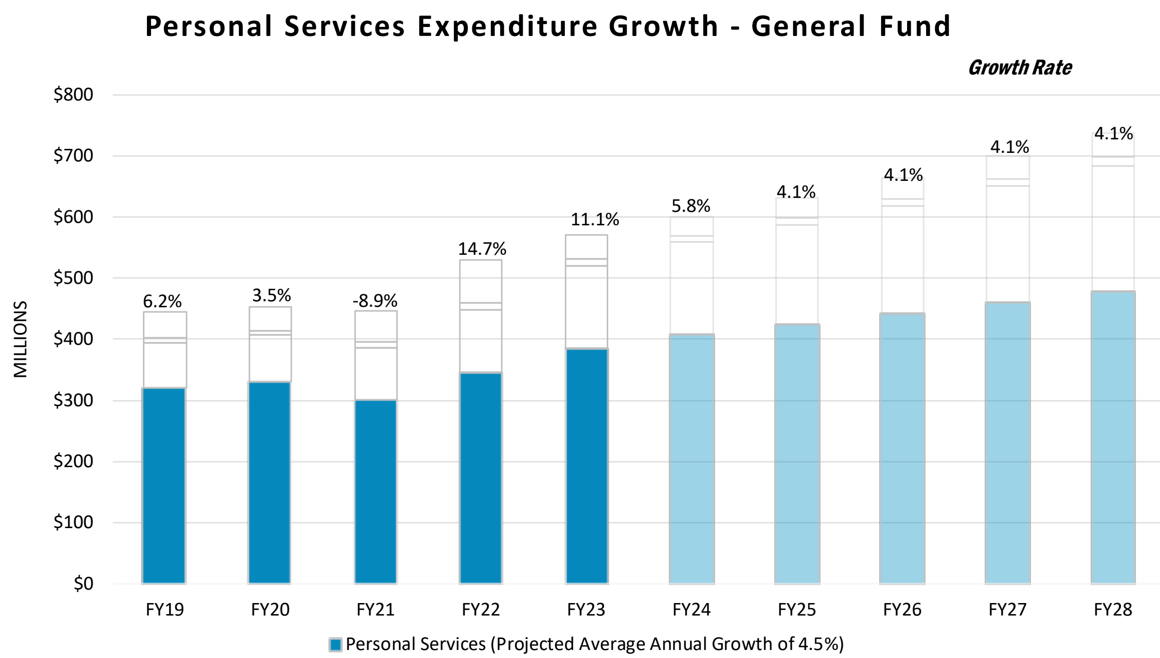
The total number of City employees under-represents the full level of service in these areas due to two factors. First, these figures only count City employees and do not include employees of the City's trusts. The Oklahoma City Zoological Trust has about 189 full-time employees and the Oklahoma City Public Property Authority has about 72 full-time employees working at the City's golf courses. These employees would count in the culture and recreation category. There are also 316 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 contractors providing City services, such as ASM staff who operate the convention center, Paycom Center and Prairie Surf Studios; employees of Waste Management, Inc. who provide much of the City's trash service and INFRAMARK employees 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 detail the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY23 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,384 general positions. The Fraternal Order of Police (FOP) represents the 1,234 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 1,016 uniformed fire positions. The remaining 1,355 positions are unrepresented management and executive positions that receive pay plan changes through City management recommendation and Council approval. When a group's pay plan is increased, all members of the group receive an increase. In addition to the pay plan increase, employees are also eligible for an increase in pay due to merit or longevity depending on the group to which they belong. Employees in AFSCME or management would not receive a merit pay increase if their performance were rated as unsatisfactory during their annual performance review or if they were at the top step of their pay range. FOP and IAFF employees would not receive a merit or longevity increase if they were at the top step in their pay range and have been working for the City for more than 20 years.

PERSONAL SERVICES FORECAST

Looking back at how employee costs have grown in recent years helps to inform projections for the future. In FY24, the rate of growth is projected at 5.8% due in large part to increases for salaries and retirement associated with the collective bargaining agreements. In FY24, 3,067 positions are expected to be budgeted in the General Fund with the remaining 2,000 or so positions budgeted in other significant operating funds such as the Police and Fire Sales Taxes, Utilities, Airports, Storm Water Drainage, Internal Service Funds, etc. The projected annual growth rate decreases to 4.1% in FY25 though FY28. Increases to position related expenses were based primarily on average annual increases from the last five years and after adjusting for inflation, and ranges from 3.8% for wages to 6.0% for insurance. Over the five-year forecast period, the average growth is projected at 4.5% annually for Personal Services with a projected budget of $406.4 million in FY24 that grows to $477.6 million in FY28.



OTHER SERVICES

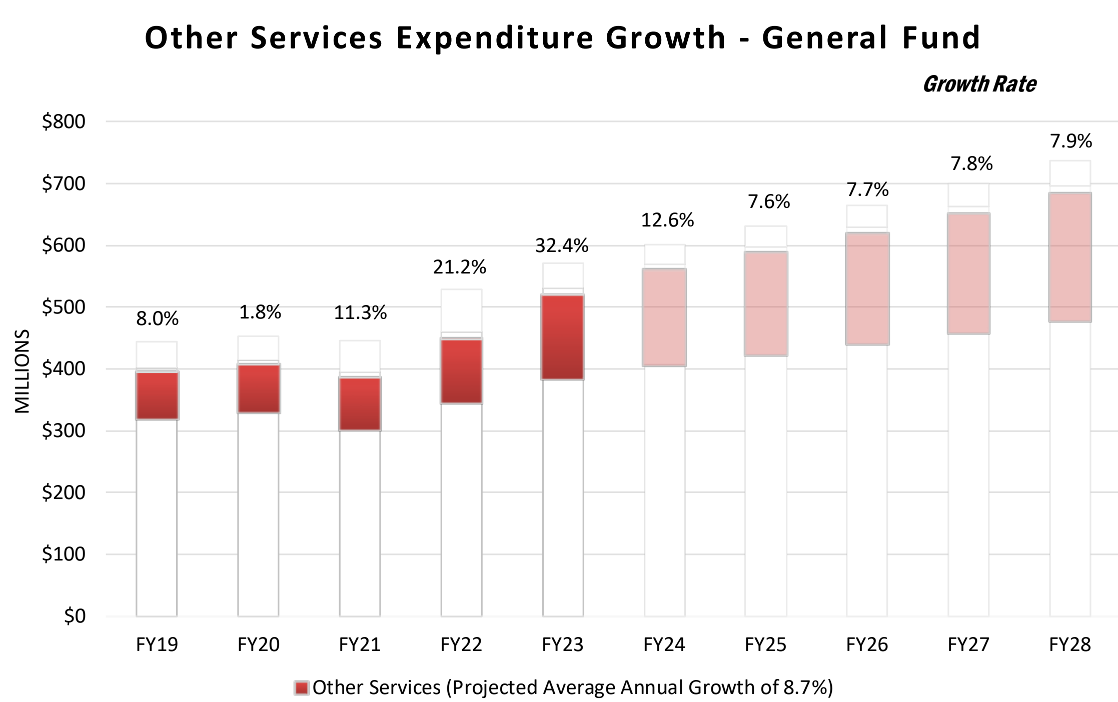
Other Services include expenditures for service contracts, utilities, printing, employee training, vehicle repairs, professional services, and chargebacks. Chargebacks are charges between internal City agencies for services such as vehicle maintenance, printing services, information technology support, workers compensation and property and liability insurance. The FY23 budget for Other Services totals $135.9 million or 23.8% of all General Fund operating expenditures. Four of the top 10 line-item expenses are in this category and include payments to the Central Oklahoma Transportation and Parking Authority (COTPA) for operation of the City's Public Transportation System, payments to the Oklahoma City Economic Development Trust (OCEDT) for various economic development activities, and payments to the internal services funds for Information Technology and Risk Management. Those four line-items constitute 56% of the category budget and 13% of the total General Fund budget.

OTHER SERVICES FORECAST

Most of the costs for Other Services during the forecast period are expected to grow at a base rate of 6.0% per year, which is lower than the average annual growth rate over the last five years, under the assumption that the high inflation over recent months will subside in the future. Adjustments to the growth rates for specific items are made as needed. The average growth for Other Services is projected to be 8.7% annually over the next five years with a budget of $153.0 million projected in FY24 that increases to $206.4 million in FY28.

FUTURE EXPENDITURES FOR NEW OR ENHANCED SERVICES

In FY24, $5.0 million was added to the City's payment to COTPA, including an additional $2.0 million for the Bus Rapid Transit program and $1.9 million in CARES Act replacement funding. A $2.0 million increase was added to the General Fund for the Riversport management contract, which was previously budgeted in the Capital Improvement Fund. Another $1.7 million was added to the payment to OCEDT, including $1.5 million for the economic development agreement for the new OKANA Resort on the grounds of the First Americans Museum. Projections are continually being refined by staff and will be adjusted accordingly each year.



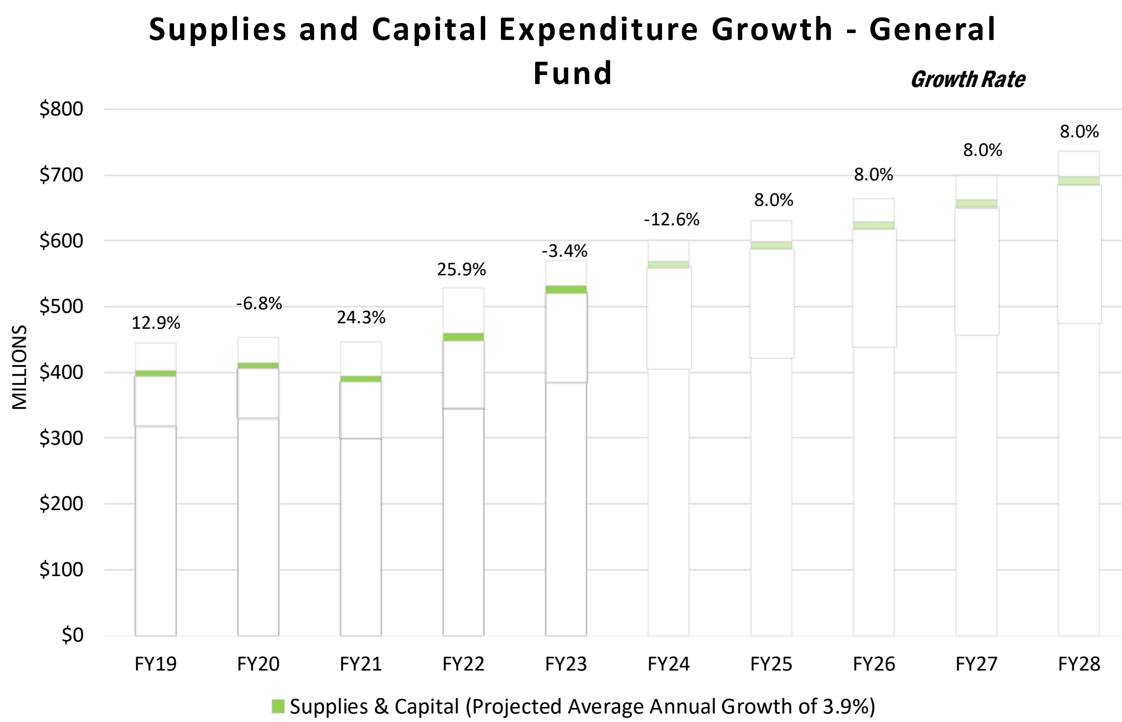
SUPPLIES AND CAPITAL

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

Capital costs (e.g., the replacement of large equipment) have generally been minimal in the General Fund. Most capital projects not funded by dedicated sources, such as GO bonds or dedicated sales taxes, are funded in the Capital Improvement Fund. The Capital Improvement Fund is funded in primarily through transfers from the General Fund, and those transfers are included in the Transfers expense category.

SUPPLIES AND CAPITAL FORECAST

In FY24, Supplies and Capital are budgeted to decrease 12.6% due to reductions in supplies; furniture and fixtures, and equipment; clothing and uniforms; computer supplies and repair and maintenance costs. In FY25-FY28, most expense items are projected to grow 8.0% annually, which is lower than the five-year average annual growth rate under the assumption that inflation will decrease in the future. When averaged over the five-year forecast period, the growth is projected to be 3.9% annually for Supplies and Capital with a projected budget of $9.8 million in FY24 that increases to $13.4 million in FY28.

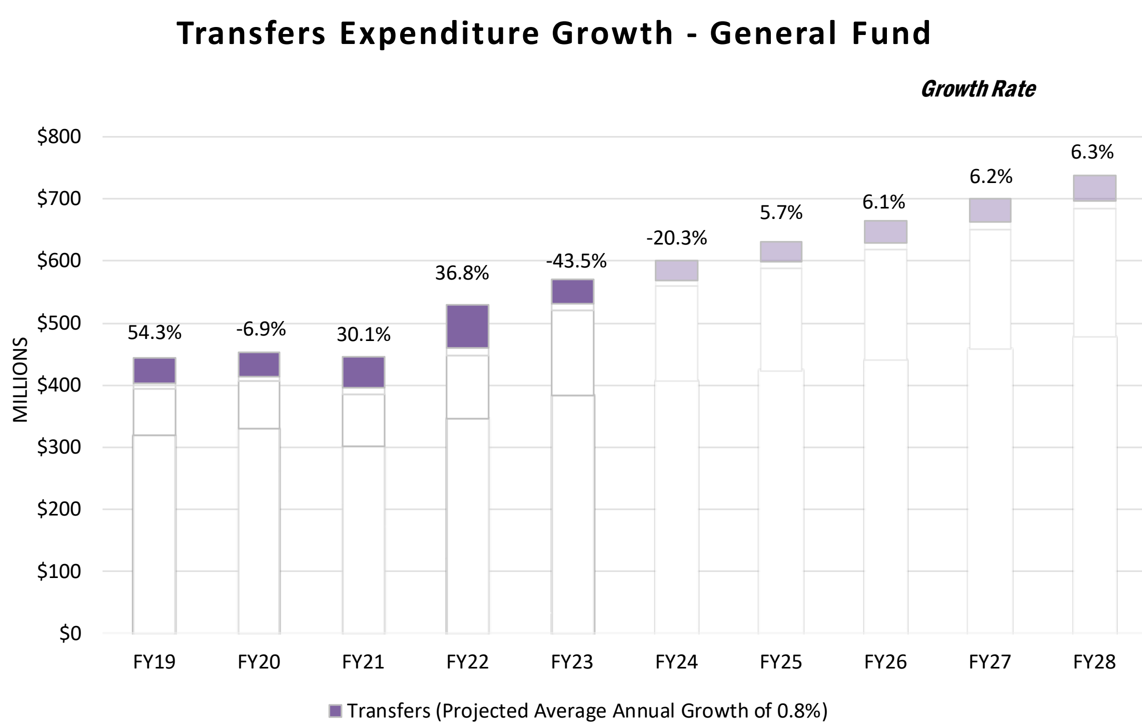


TRANSFERS

General Fund Transfer costs reflect the fund's direct financial support of several services for which the dedicated funding sources are insufficient to meet City objectives. The FY23 General Fund budget includes $39.2 million in Transfers which is 6.9% of the total budget. Two of the top 10 line-item expenses are in this category: a $15.8 million transfer to the OCPPA for the ASM management contract, and $12.7 million in transfers to the Capital Improvement Fund. In addition, $4.1 million is budgeted for 911 operations and another $2.0 million for the upgrade of the City's financial system. Those four items combined comprise 88.1% of the category budget and 6.1% of the total General Fund budget.

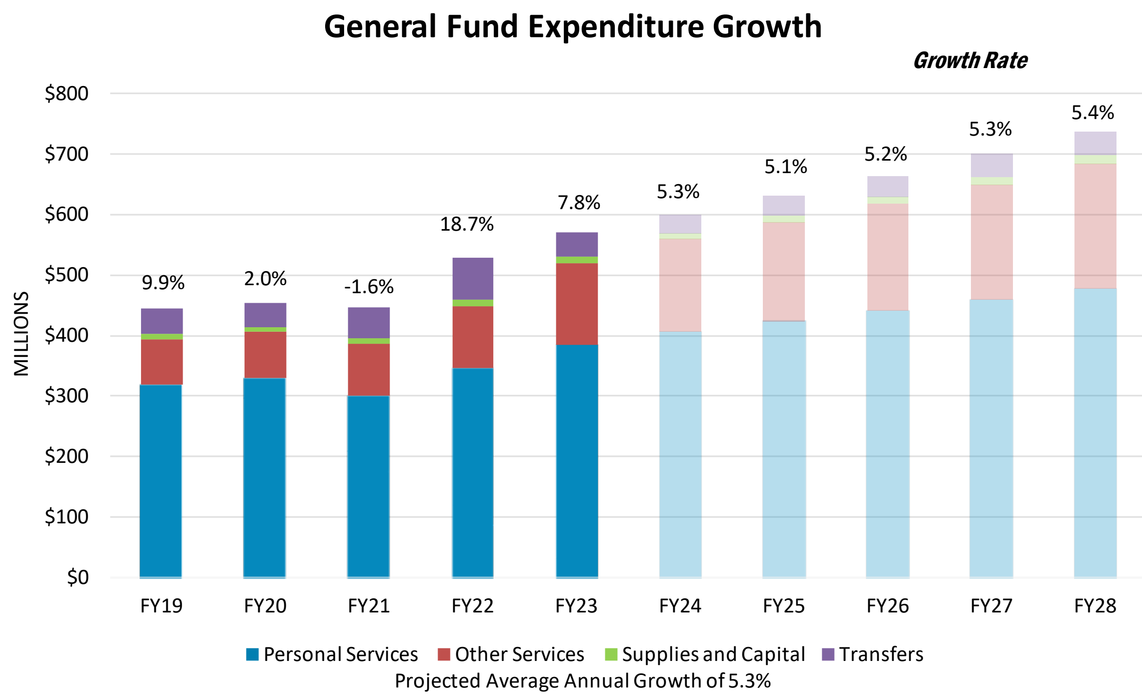
TRANSFERS FORECAST

The growth rate for each transfer is budgeted individually using historical data and analysis of specific projects. When averaged over the five-year forecast period, the growth is projected to be 0.8% annually, with growth in later years impacted by a 20.3% decrease in FY24 as the transfer of greater-than-budgeted revenues collected in recent years to the Capital Improvement Fund diminishes. The Transfers budget increases from a projected $31.2 million in FY24 to $39.6 million in FY28.



OVERALL EXPENDITURE FORECAST

When all the categories are combined, General Fund expenses are projected to grow 5.3% annually over the next five years. The FY24 budget is projected to be $600.4 million which increases to $737.0 million in FY28.



FIVE-YEAR FORECAST

FISCAL YEAR 2024 - 2028

SECTION 8

GENERAL FUND

REVENUE/EXPENDITURE GAP

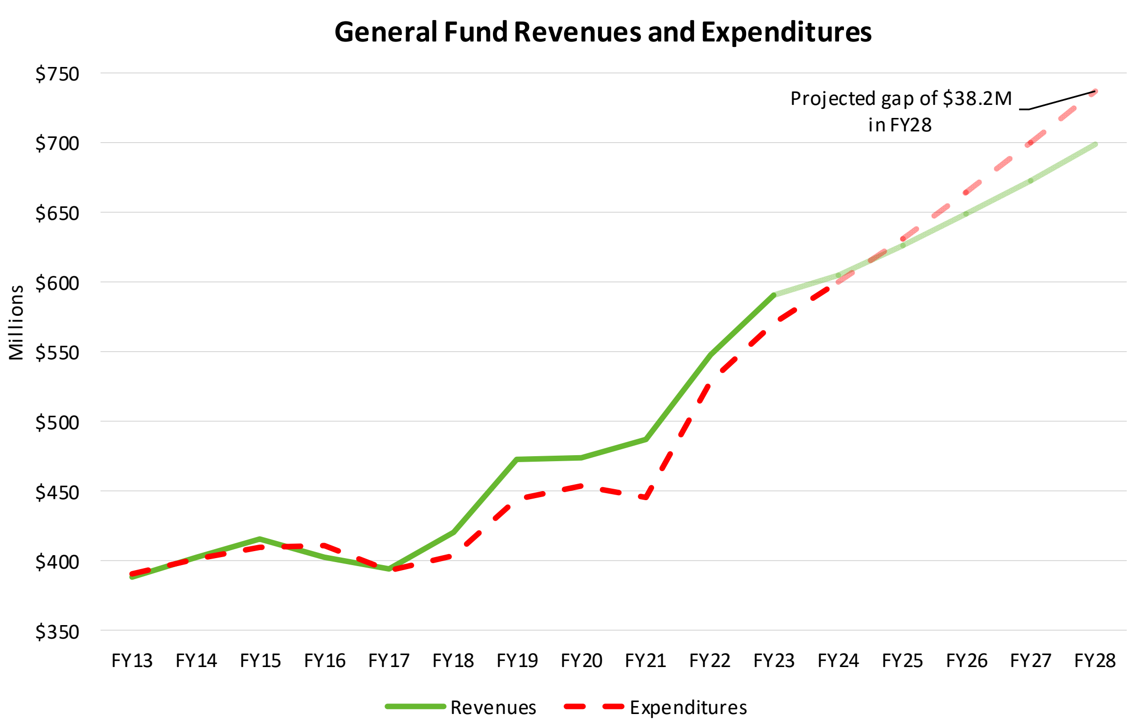
PROJECTED REVENUE/EXPENDITURE GAP

Historically, the City's financial forecasts have projected a revenue/expenditure gap. A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to the City's continued financial stability. Growth slowed as the energy sector contracted in FY16 and FY17 with Oklahoma City's General Fund revenue declining 2.5% in FY16 and 2.1% in FY17. The local economy experienced a mini boom with growth of 8.5% and 9.5% in FY18 and FY19. A ¼ cent increase in the sales tax rate that was effective mid-year FY18 generated a portion of the growth which carried over into FY19, FY20, and FY21. Most recently, the COVID-19 pandemic slowed growth to 0.2% in FY20. Federal stimulus plans and a return to in-person shopping spurred consumer spending which helped produce growth of 2.9% in FY21 and 12.5% in FY22. This trend has continued throughout the first half of FY23, and 7.7% growth is expected at year-end. The projection for FY24 is modest 2.4% growth with the expectation that the continued consumer demand and high inflationary prices that have sustained sales and use tax collections in recent months will diminish from their post-pandemic highs.

A financial gap appears when projected General Fund expenses exceed anticipated

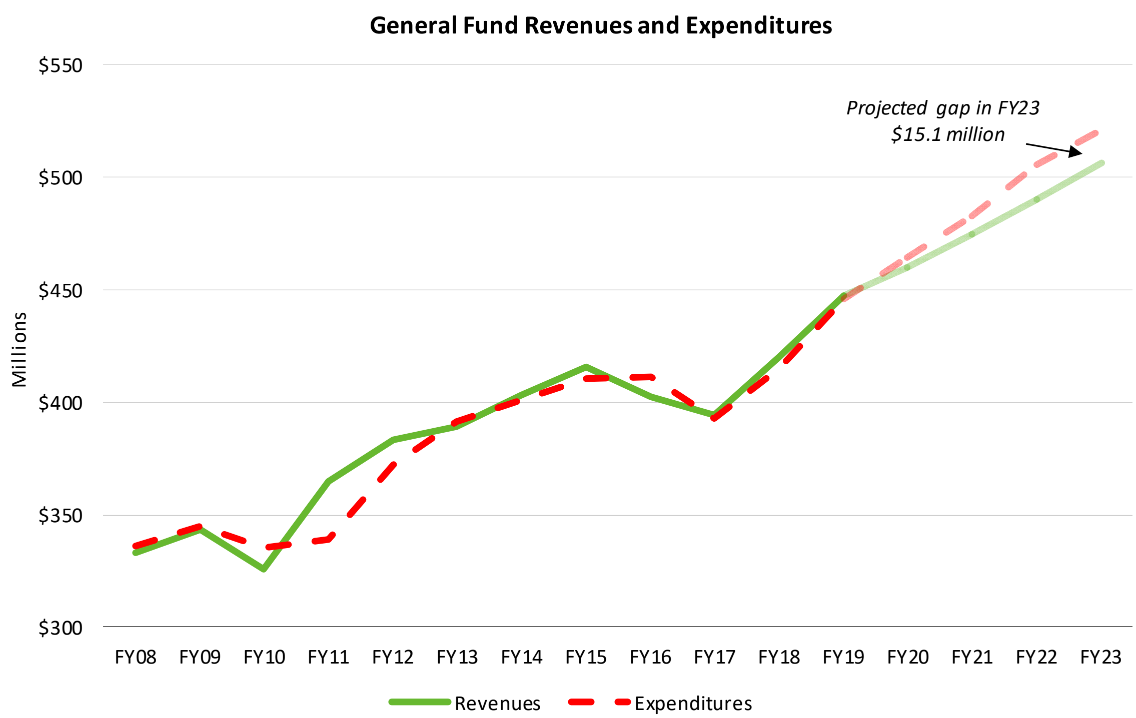
Current operating and capital issues facing the City will require careful planning to ensure a sound financial future. The Five-Year Forecast is one of the tools used to plan for continued financial health by facilitating the development of long-term strategies within the framework of the resources available.

Through FY28, revenues are expected to average 4.2% growth annually. Expenditures are expected to grow at an average rate of 5.1% annually. The difference between the two growth rates is reason for concern, although any 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 $5.7 million in FY28. The General Fund Revenues and Expenditures chart below shows ten years of actual figures (FY13-FY22) and projections for FY23-FY28. In past years, when the expenditure line is above revenue line, the City used reserves (fund balance) to balance that year's revenues and expenses. In years where revenues were above expenditures, additional funding was put into reserve.

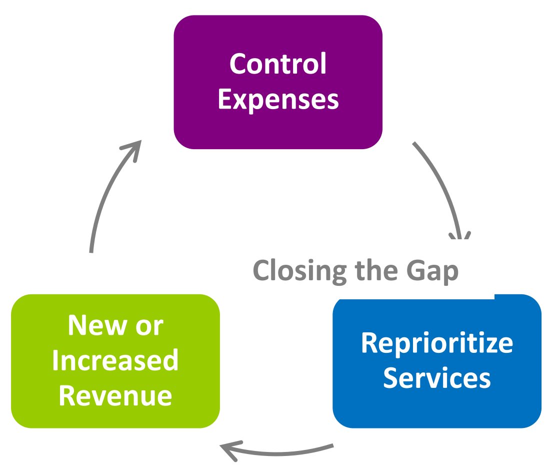


CLOSING THE GAP

State law mandates that a budget be balanced, or that revenue exceeds expenses, and every year the City must work to close any gaps. Projections are an informed guess based on the information available at the time, and while they are almost always inaccurate, projections provide a plan from which to work and bring attention to items that need to be addressed. The graph below is the General Fund gap projection for FY23 from five years ago. Expenses were projected to be $521.3 million and revenue $506.1 million. The FY23 operating budget ended up being $570.4 million, well above both the projected revenues and expenses from five years ago. One major event that has occurred in the last five years that would not have been projected at the time was the COVID-19 pandemic and the subsequent fiscal stimulus programs, that resulted in historic levels of sales and use tax collections for the City. The chart below was included to demonstrate that each year the budgeted gap was closed, and projections refined using the latest data.



Expenditure control is the area where the City has the most flexibility and power to close the gap. Since Personal Services make up the majority of General Fund costs, controlling growth in this area will be key to maintaining financial balance. The most effective means to achieve a balance between controlling personnel costs and maintaining competitive salary and benefit packages will be to limit salary and benefit growth to within the approximate growth rates of City revenues. The City continues to find ways to limit 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 reductions in service levels.



Another option is for City leaders to continue reprioritizing municipal 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.

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

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

CONCLUSION

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

FIVE-YEAR FORECAST

FISCAL YEAR 2024-2028

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