

CITY COUNCIL WORKSHOP

FEBRUARY 7, 2017



**FIVE-YEAR
FORECAST**
FY 2018-2022

AGENDA

1
**Economic
Outlook**

2
**Financial Trends
and Issues**

3
**Fiscal Year 2018
Budget Outlook**

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

ECONOMIC OUTLOOK



**FIVE-YEAR
FORECAST**
FY 2018-2022



Meinders
School of Business
OKLAHOMA CITY UNIVERSITY

Russell R. Evans, Ph.D.

Executive Director, Steven C. Agee Economic Research and Policy Institute
Meinders School of Business



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

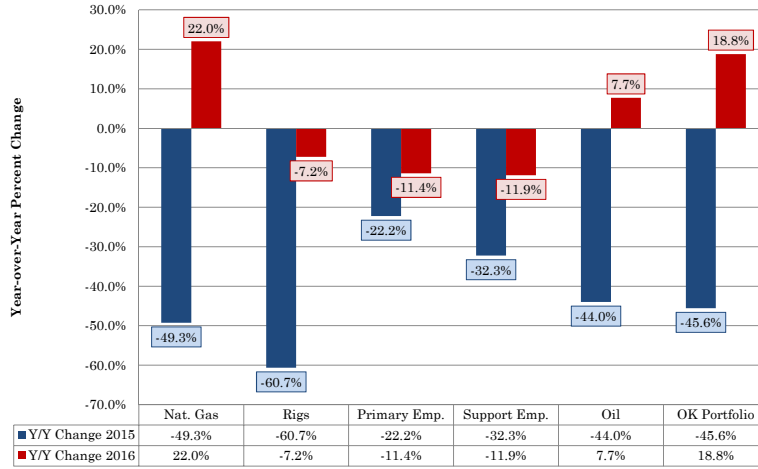
Economic and Fiscal Outlook 2018

- The U.S. Economic Outlook
 - From inventory drag to inventory accumulation
 - A return to the new normal
 - Policy uncertainty only remains around taxes, health care, trade, infrastructure, border tariffs, regulatory initiatives, immigration, and the future of the executive order!
- The Oklahoma Economic Outlook
 - Local economy at an inflection point
 - Both state and metro economy will feel healthy by year end
 - A year when the percent change in average annual will disguise reality
- The Oklahoma City Fiscal Outlook
 - Economic inflection coincides with changing fiscal year
 - FY 2017 reminiscent of mild recession while FY 2018 is set up for recovery

Conclusions from Last Year Revisited

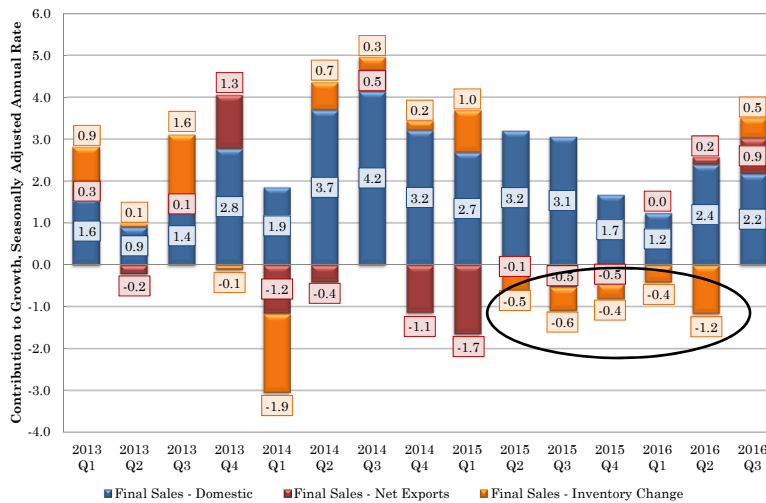
- Economic outlook is tenuous
 - Chatter of **U.S. recession** is building
 - Recent decline in oil prices is a demand issue – rebound will require a **disturbance to either supply or demand** pressures
- Geography insulates Oklahoma City but offers little protection to the rest of the state
- **Geography not expected to offer same support in 2016** – the lost year
- Economic and fiscal outlook point to a lost year of flat economic and fiscal activity; **fiscal year 2017 growth will likely depend on the performance of the second half of the fiscal year**

Energy Index Components

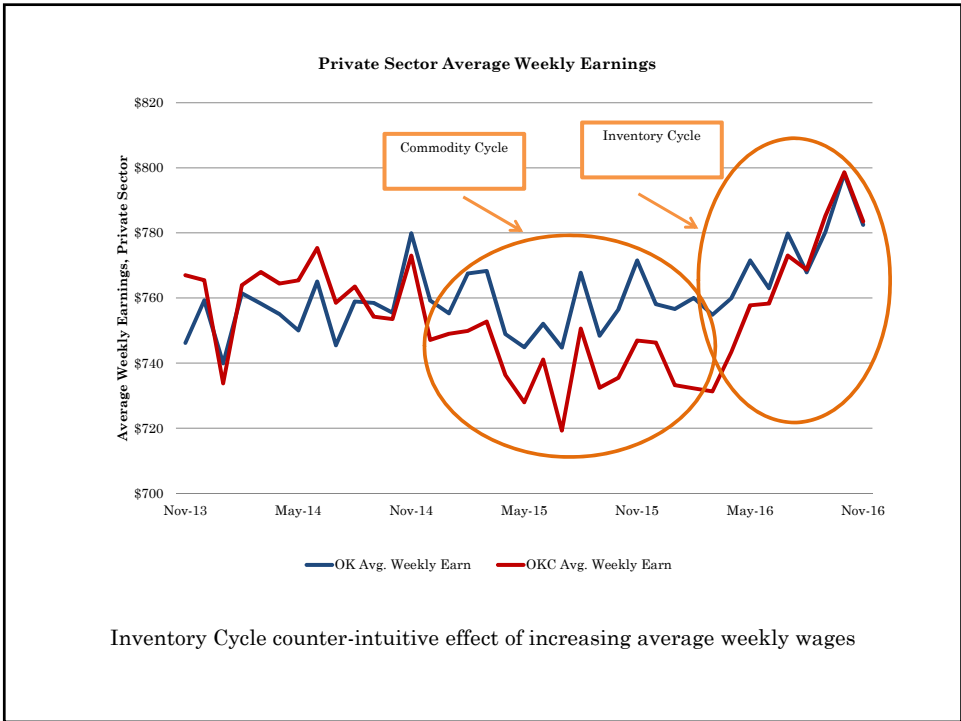
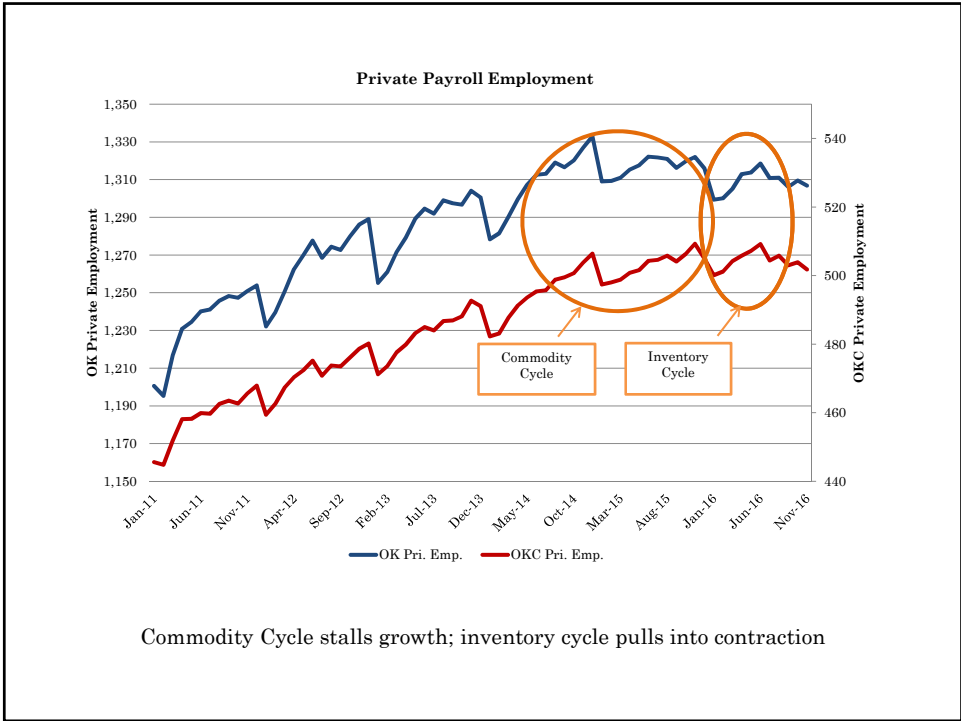


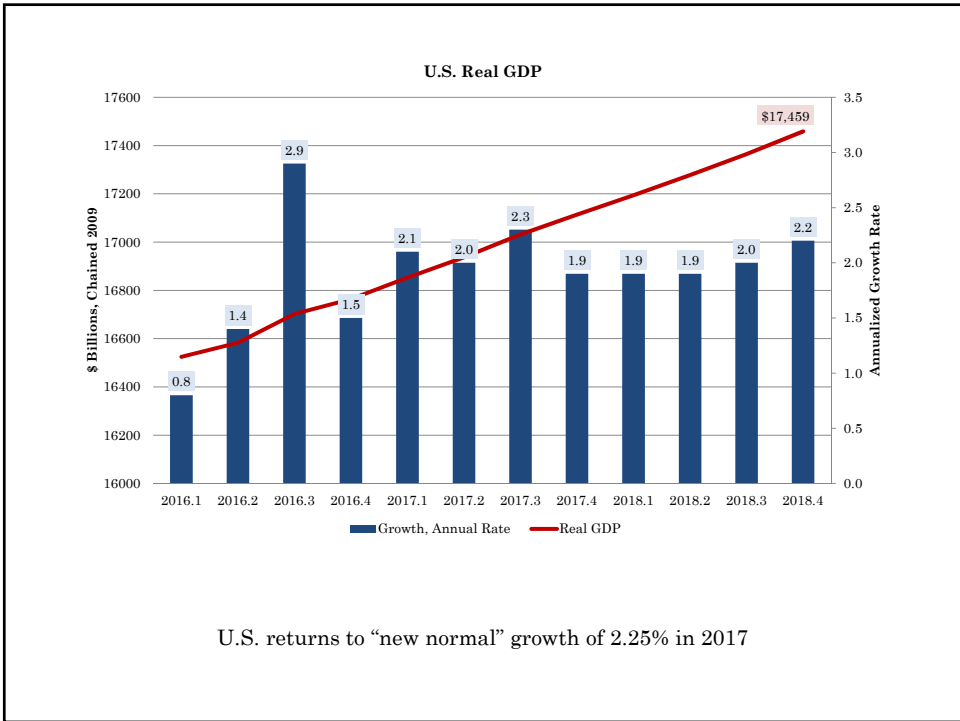
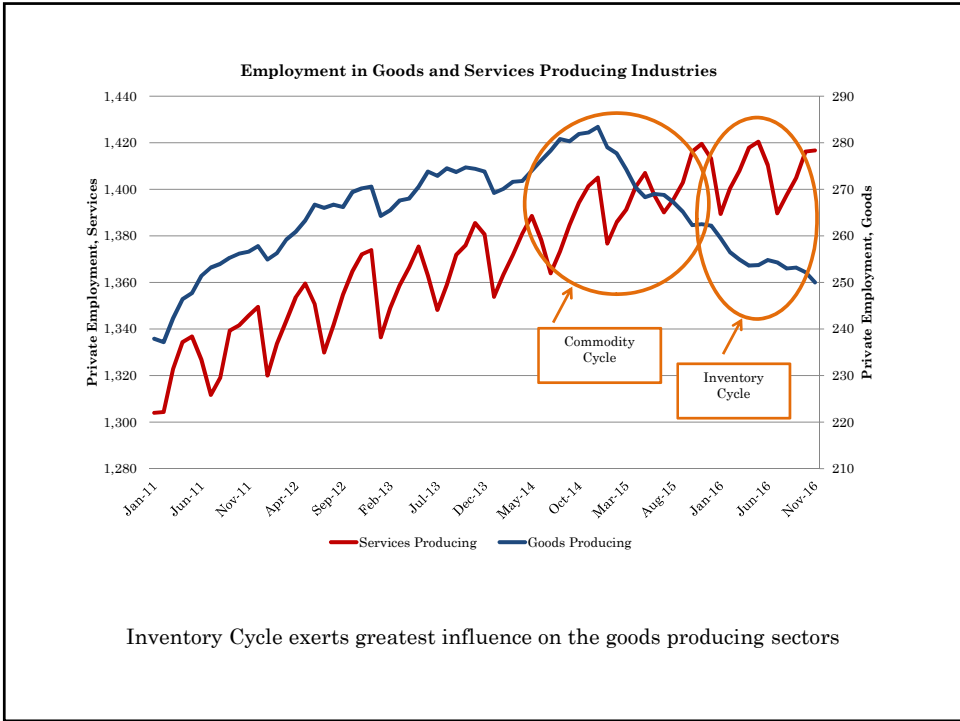
Energy industry cannot explain the broad economic weakness of 2016

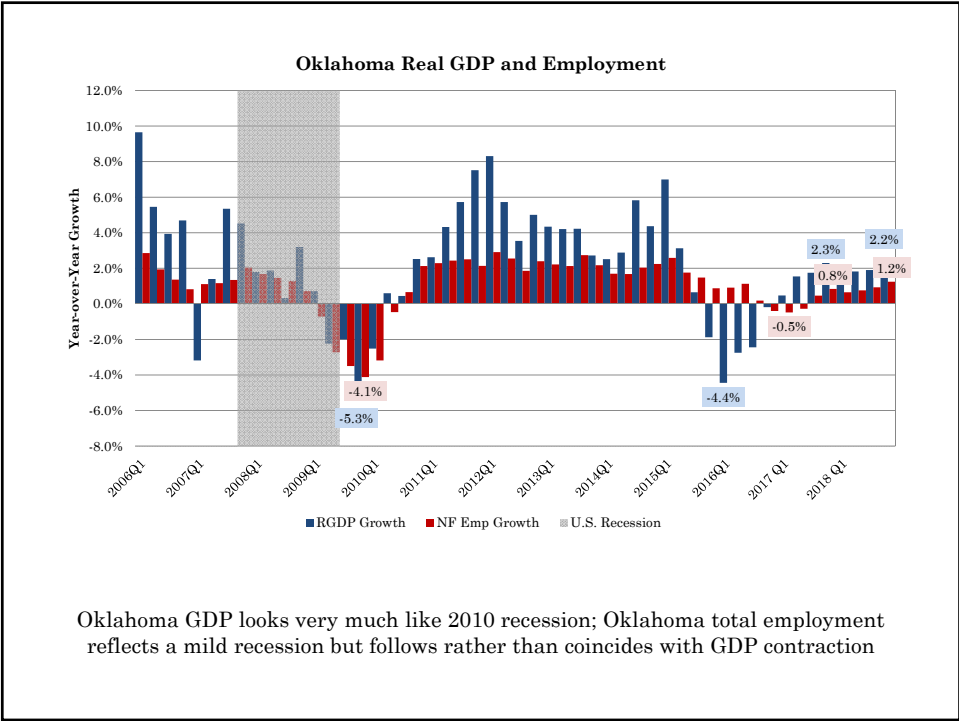
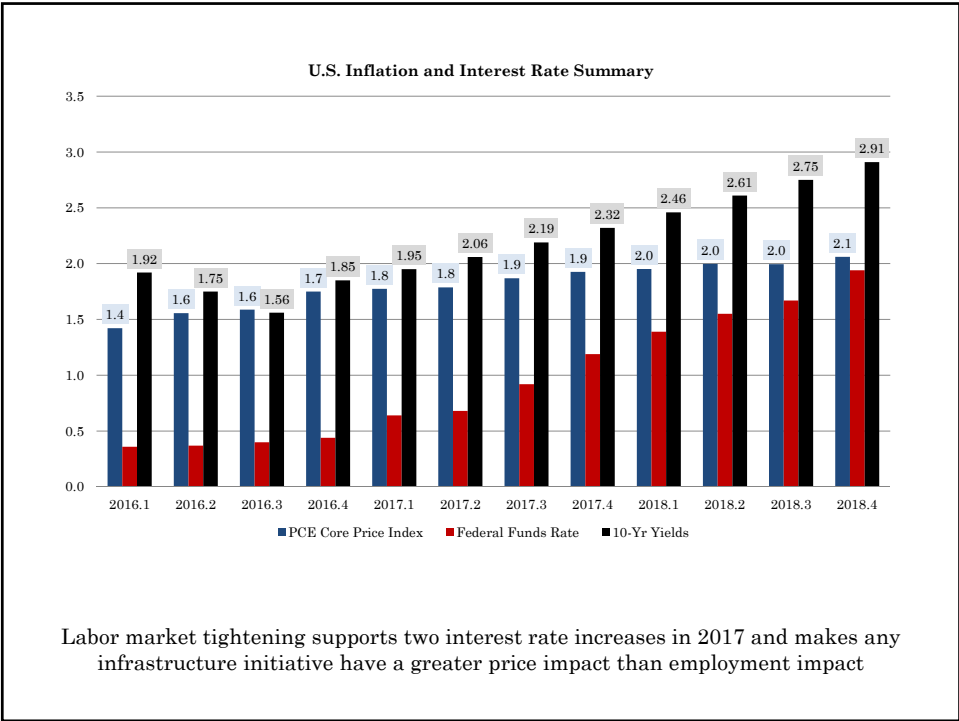
Composition of U.S. GDP Growth

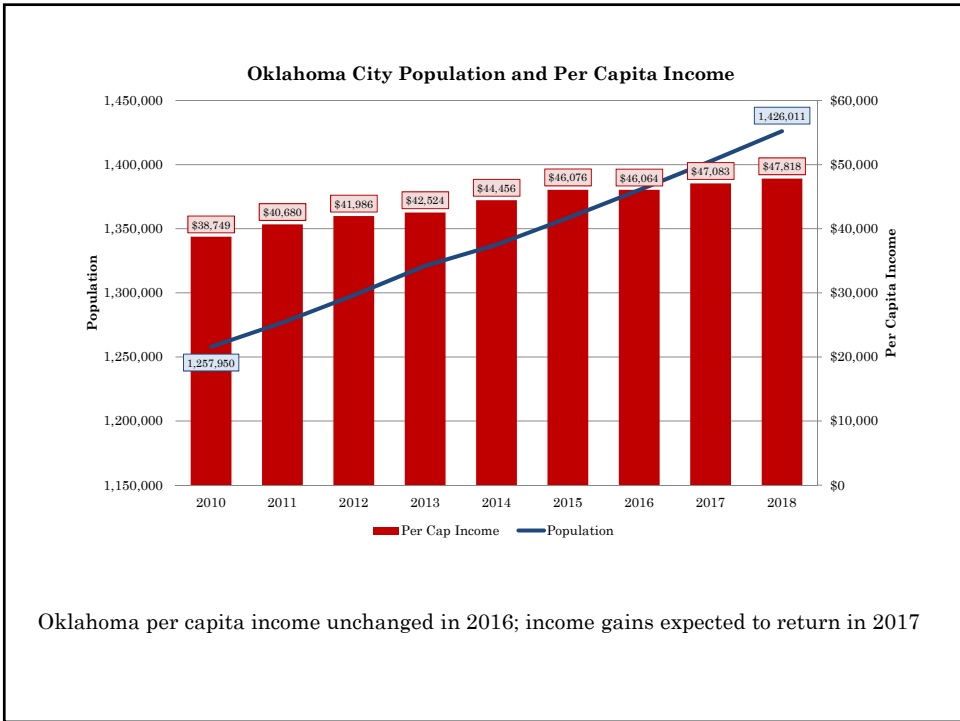
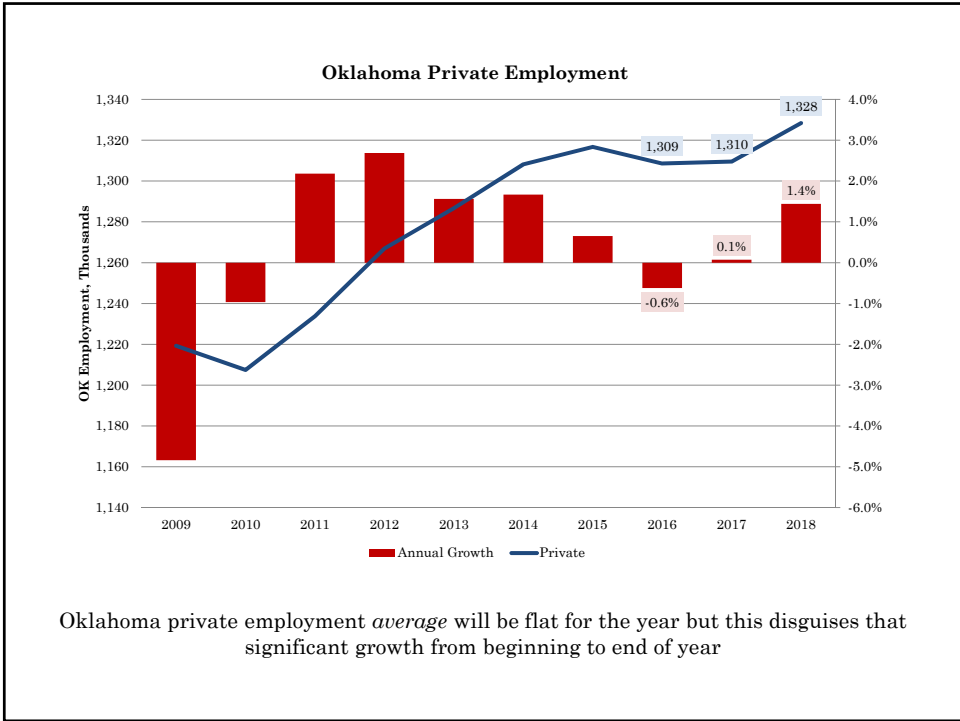


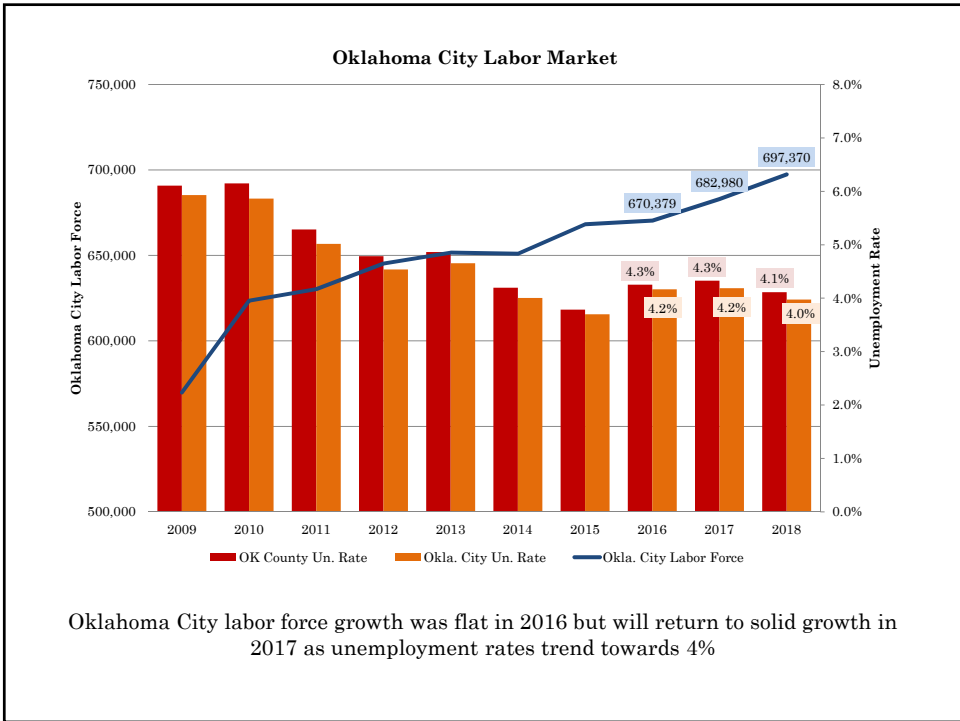
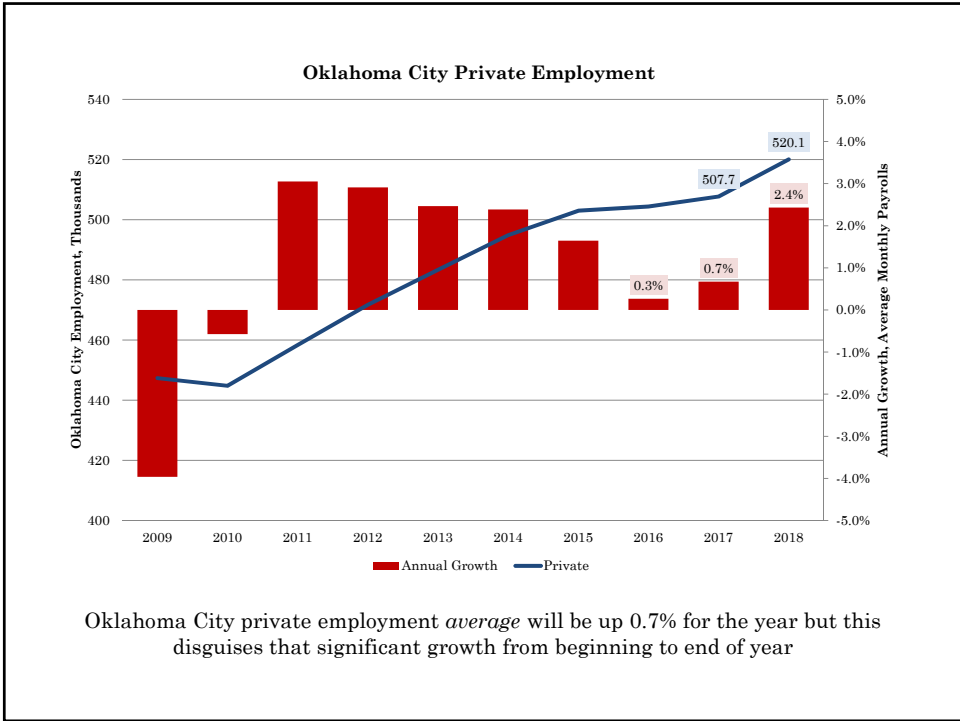
No outright U.S. recession, but inventory cycle was indicative of a mild recession





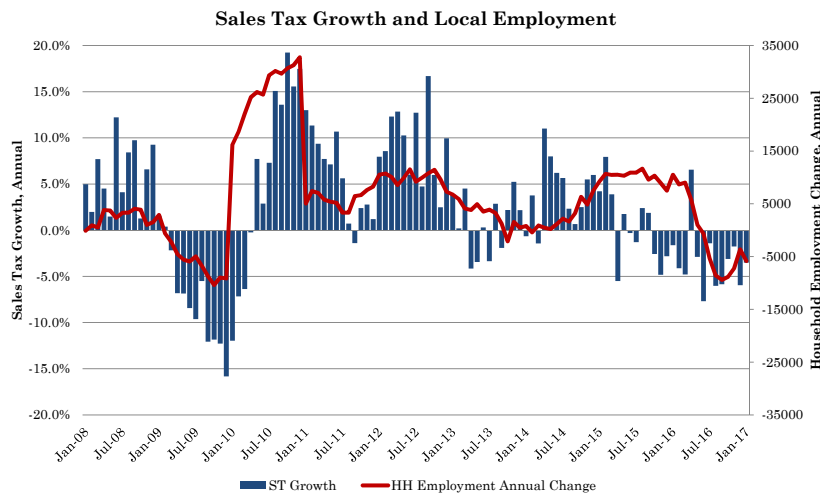




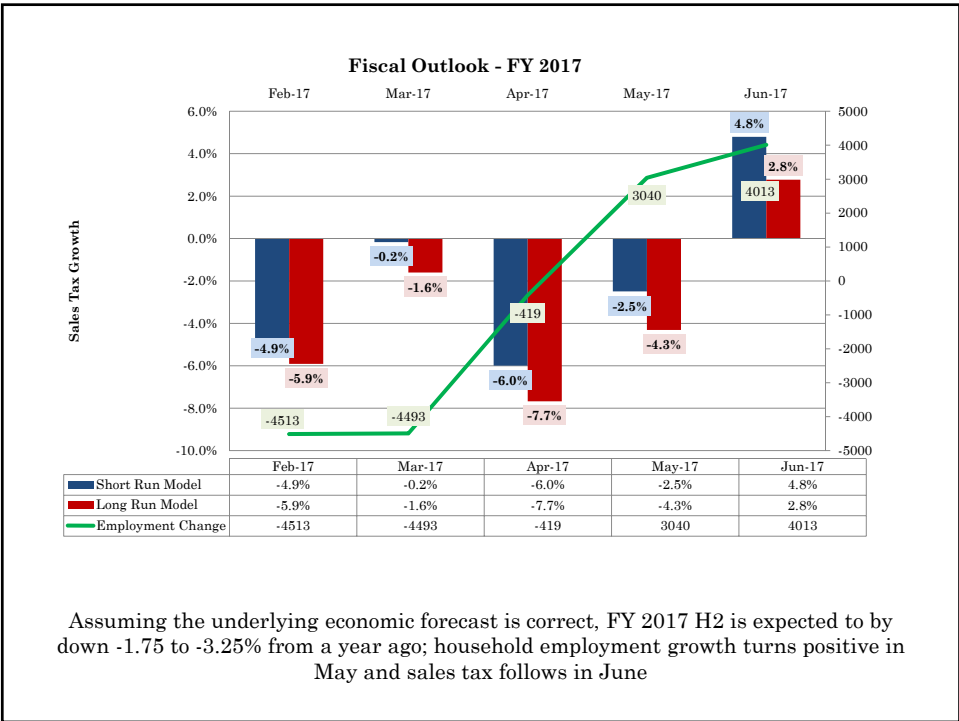
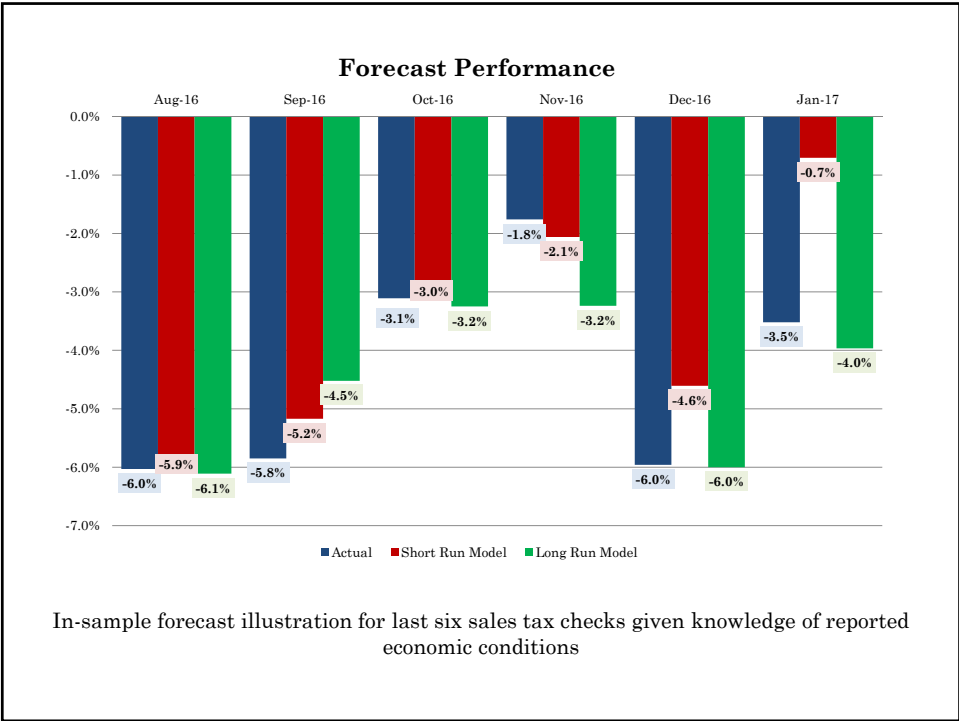


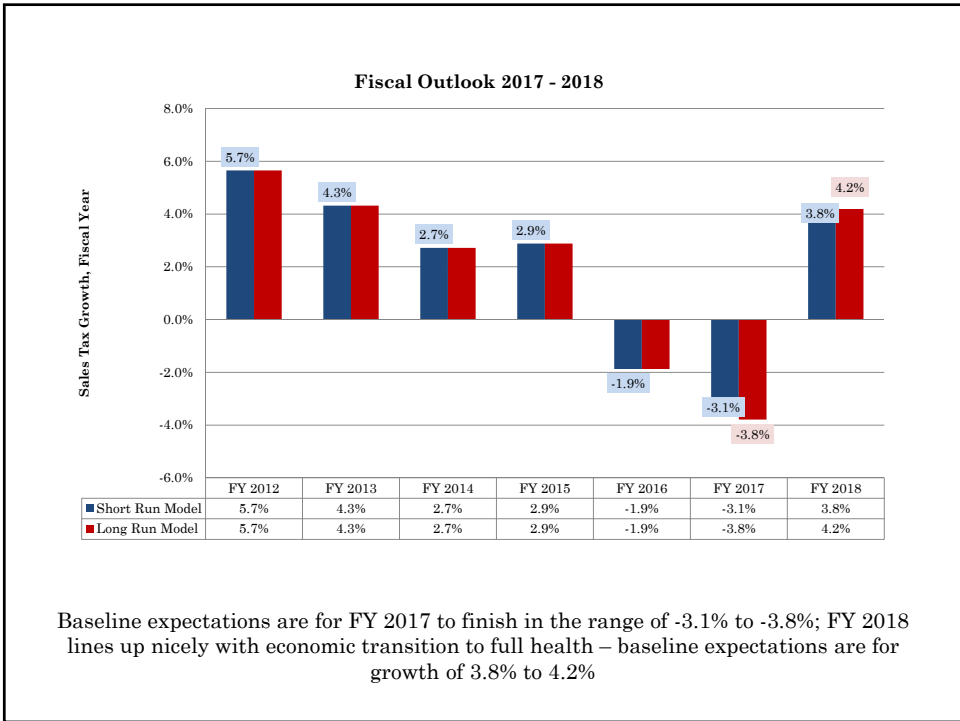
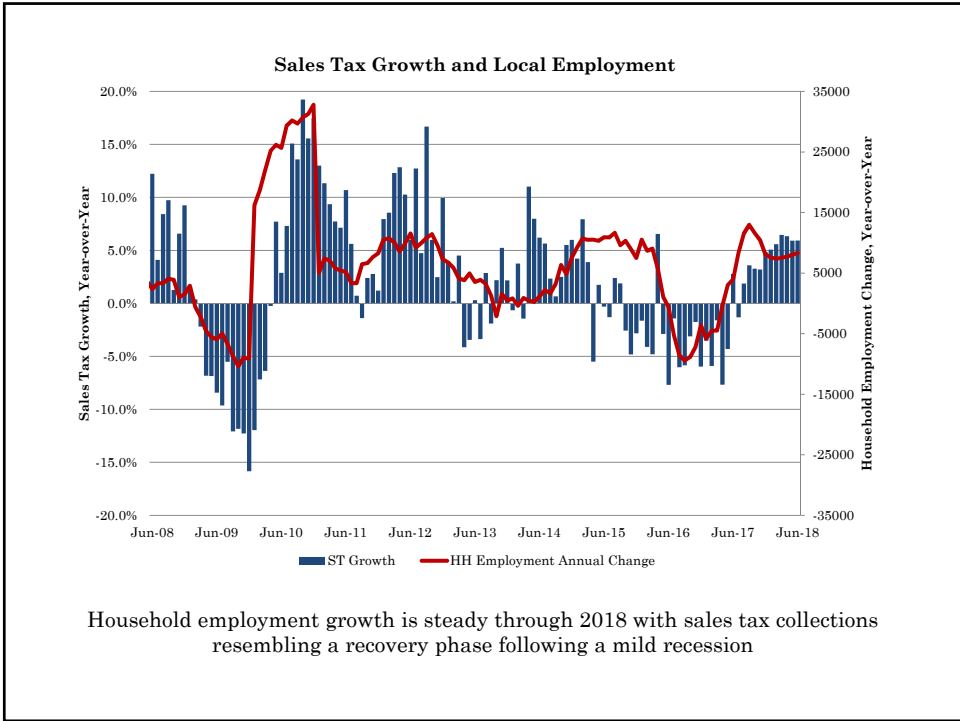
Oklahoma City Fiscal Outlook						
Monthly Detail	Baseline		Alternative		Actual Growth	
	Collections	Growth	Collections	Growth		
Feb-16	\$ 37,030,753.69	-5.7%	\$ 37,030,753.69	-5.7%	-4.1%	
Mar-16	\$ 32,473,316.88	-1.9%	\$ 32,413,886.57	-2.1%	-4.8%	
Apr-16	\$ 33,272,353.56	2.3%	\$ 33,131,333.83	1.9%	6.5%	
May-16	\$ 34,998,652.02	-3.1%	\$ 34,809,764.55	-3.6%	-2.9%	
Jun-16	\$ 34,256,616.31	-1.2%	\$ 33,952,031.73	-2.1%	-7.7%	
Jul-16	\$ 35,051,598.60	0.4%	\$ 34,667,984.56	-0.7%	-1.4%	
Aug-16	\$ 35,990,916.06	-1.9%	\$ 35,556,734.70	-3.1%	-6.0%	
Sep-16	\$ 36,017,480.76	-0.7%	\$ 35,500,786.66	-2.2%	-5.8%	
Oct-16	\$ 36,518,952.62	2.0%	\$ 35,969,080.37	0.5%	-3.1%	
Nov-16	\$ 35,296,194.74	3.0%	\$ 34,705,107.66	1.3%	-1.8%	
Dec-16	\$ 34,898,935.80	-1.0%	\$ 34,288,906.22	-2.7%	-6.0%	
Jan-17	\$ 36,595,085.30	2.3%	\$ 36,004,066.95	0.7%	-3.5%	
Feb-17	\$ 37,658,482.29	1.7%	\$ 37,092,471.83	0.2%		
Mar-17	\$ 33,396,207.35	2.8%	\$ 32,809,867.78	1.2%		
Apr-17	\$ 34,160,403.35	2.7%	\$ 33,549,495.71	1.3%		
May-17	\$ 35,827,066.71	2.4%	\$ 35,202,596.72	1.1%		
Jun-17	\$ 35,319,268.64	3.1%	\$ 34,653,560.56	2.1%		
Fiscal Year Summary						
FY 2015		2.88%		2.88%		
FY 2016		-1.61%		-1.77%		
FY 2017		1.37%		-0.07%		

The monthly forecast last year called for FY 2016 H2 growth of -2.3% vs. realized growth of -2.6%; forecasted signs correct 8 months out but magnitude diverges inventory cycle effect is felt in FY 2017 H1



Over the last 10 year, when year-over-year household employment growth is positive so are tax collections; HH employment stayed positive through the commodity cycle but was pulled negative in mid-2016 by inventory cycle effects





Conclusion and Discussion

- Economic outlook is favorable for the U.S. after prolonged inventory correction
 - Expect the U.S. to return to a rate of growth consistent with our post-recession “new normal”
- Oklahoma economy is at an inflection point
 - Relative to previous year, both energy industry and improving U.S. economy should be net positives for the state
 - Turn to year-over-year growth expected in late spring / early summer; economic activity will “feel” much healthier by end of 2017
- Both economic and fiscal activity in Oklahoma City benefits from the relaxed commodity and inventory constraints
 - FY 2017 sales tax collections reflective of mild recession-like environment; FY 2018 collections will be reflective of mild recession-like recovery environment

FINANCIAL
TRENDS

FINANCIAL TREND
MONITORING SYSTEM



FIVE-YEAR
FORECAST
FY 2018-2022

Financial Trend Monitoring System (FTMS)

Provides an overall picture of Oklahoma City's financial condition

- Adapted from ICMA handbook *Evaluating Financial Condition*



FTMS Results



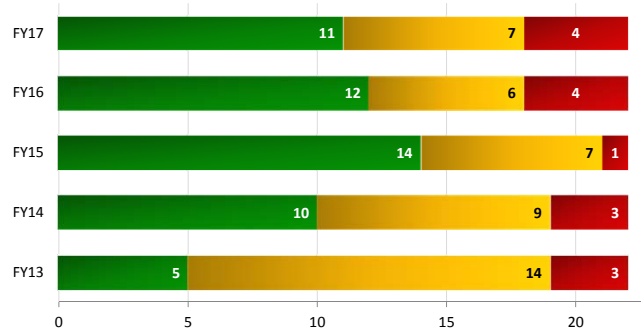
POSITIVE



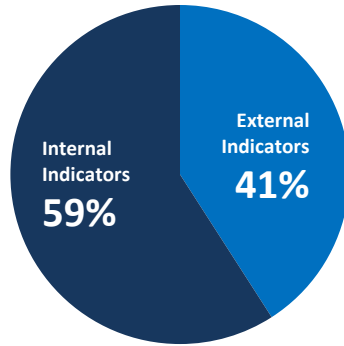
NEUTRAL



NEGATIVE



22 Financial Trend Indicators (FTMS) Indicators



FIVE-YEAR FORECAST 29

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

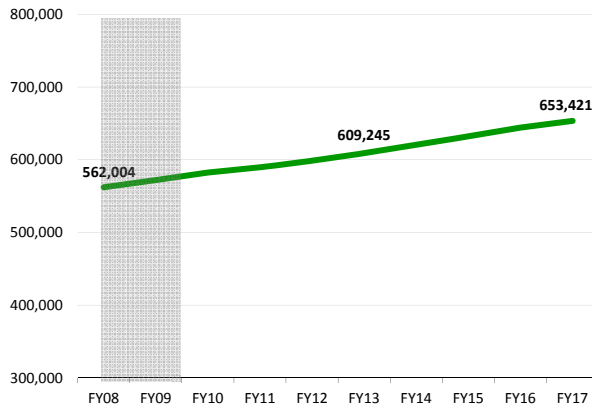
- ✓ Population
- ✓ Labor Force
- ✗ Weekly Earnings
- ✓ Crime Rate
- ✓ Property Value
- Office Vacancy Rate
- ✓ Airport Activity
- ✗ Private Development
- ✗ Active Drilling Rigs

EXTERNAL INDICATORS

FIVE-YEAR FORECAST 30

Population

FINANCIAL TRENDS



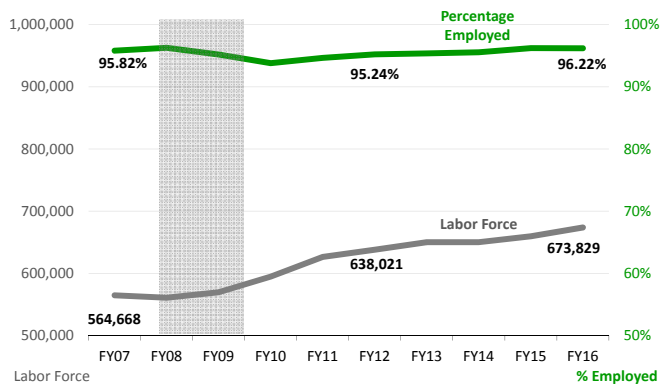
EXTERNAL INDICATOR

FIVE-YEAR FORECAST 31

Labor Force

And Percentage of Labor Force Employed

FINANCIAL TRENDS



EXTERNAL INDICATOR

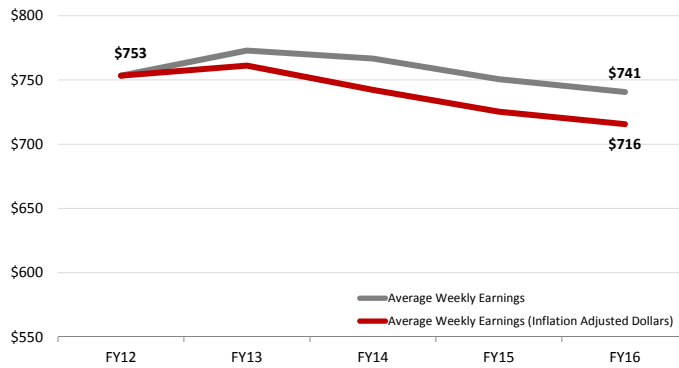
FIVE-YEAR FORECAST 32

FINANCIAL TRENDS



Average Weekly Earnings ⊗

OKC-MSA, Private Sector



EXTERNAL INDICATOR

FIVE-YEAR FORECAST 33

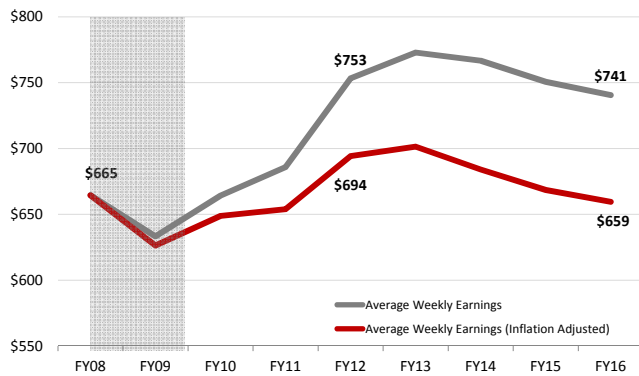
FINANCIAL TRENDS



Average Weekly Earnings

OKC-MSA, Private Sector

10-Year View

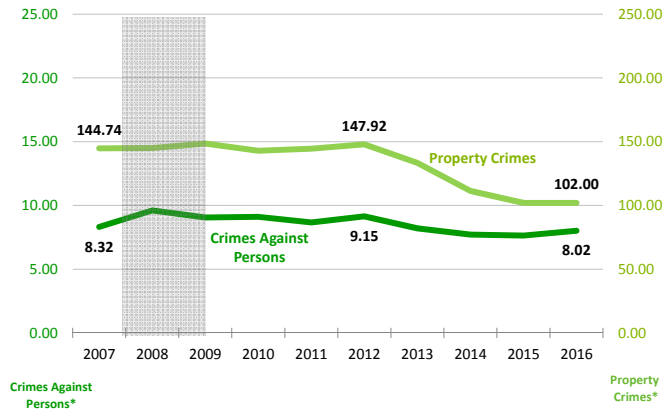


EXTERNAL INDICATOR

FIVE-YEAR FORECAST 34

Crime Rate

FINANCIAL TRENDS



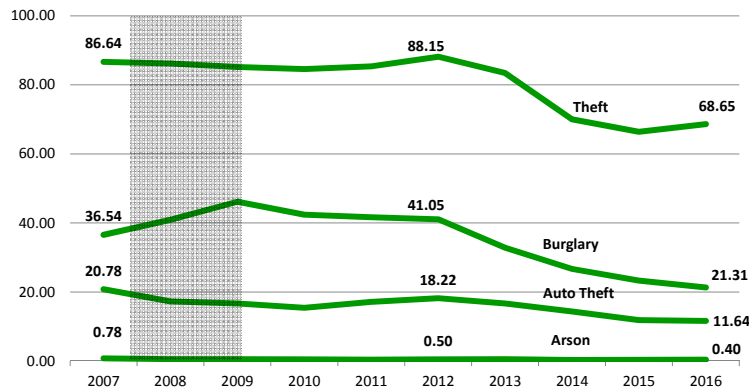
EXTERNAL INDICATOR

FIVE-YEAR FORECAST 35

Property Crimes

Per 1,000 households

FINANCIAL TRENDS

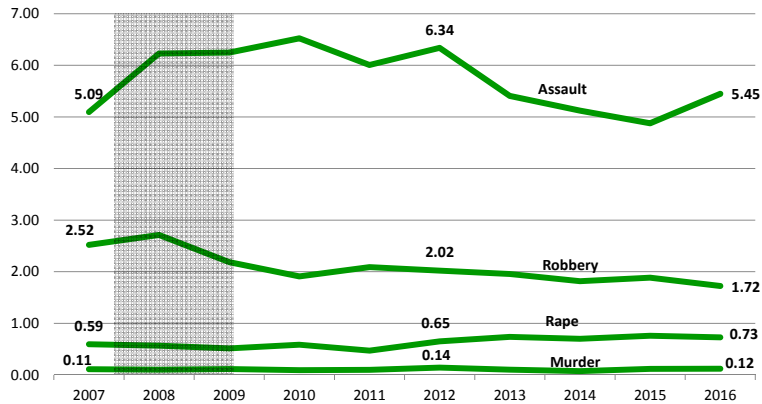


EXTERNAL INDICATOR

FIVE-YEAR FORECAST 36

Person Crimes

Per 1,000 residents / 10 year history by category

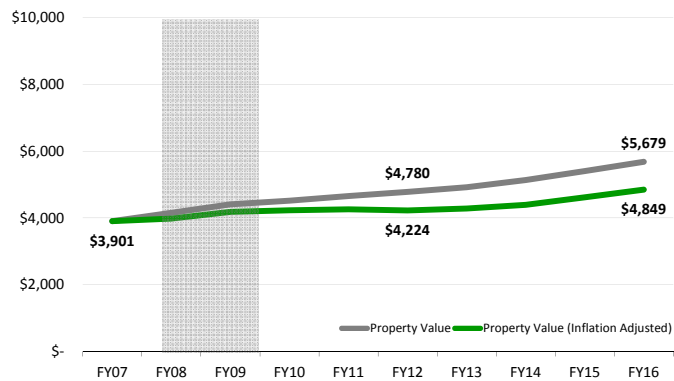


EXTERNAL INDICATOR

FIVE-YEAR FORECAST 37

Property Value

Assessed Property Value in Millions of Dollars

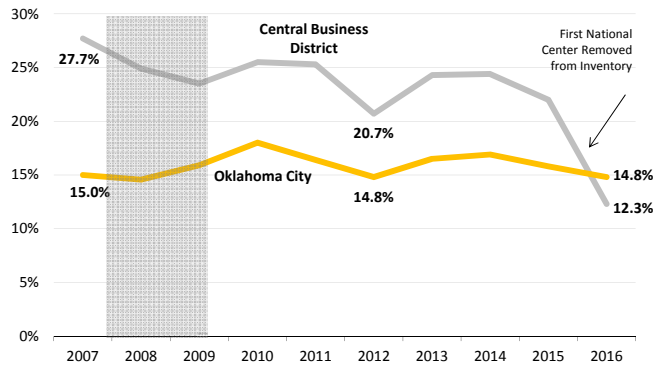


EXTERNAL INDICATOR

FIVE-YEAR FORECAST 38

Office Vacancy Rate

FINANCIAL TRENDS



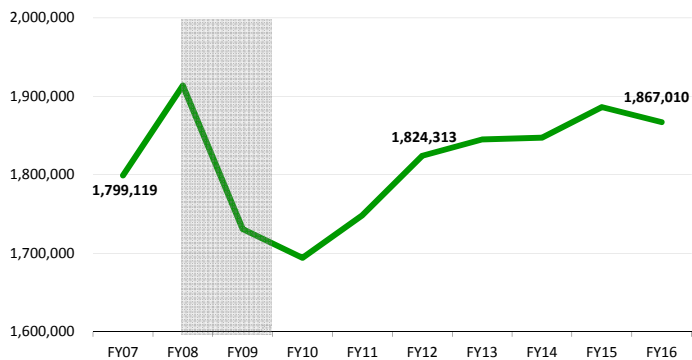
EXTERNAL INDICATOR

FIVE-YEAR FORECAST 39

Airport Activity

Will Rogers World Airport
Number of Boarding Passengers

FINANCIAL TRENDS



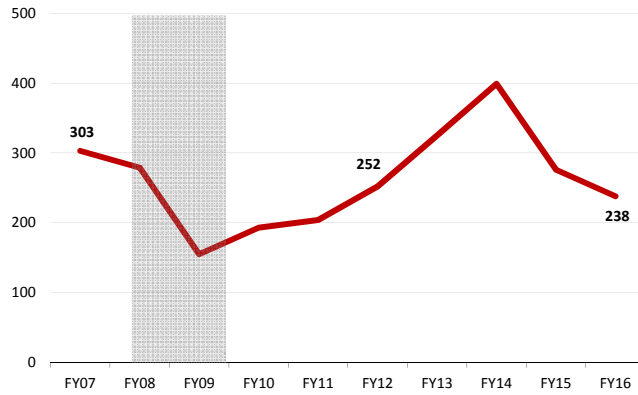
EXTERNAL INDICATOR

FIVE-YEAR FORECAST 40

Private Development Plans



FINANCIAL TRENDS



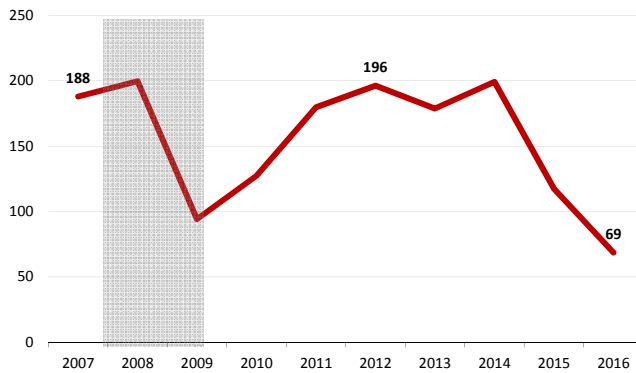
EXTERNAL INDICATOR

FIVE-YEAR FORECAST 41

Active Drilling Rigs



FINANCIAL TRENDS



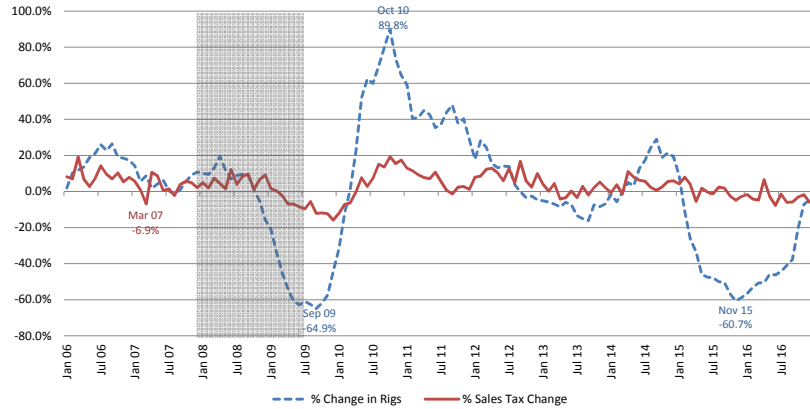
January 2017
Average Rig Count
89

EXTERNAL INDICATOR

FIVE-YEAR FORECAST 42

Active Drilling Rigs

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



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

REVENUES

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

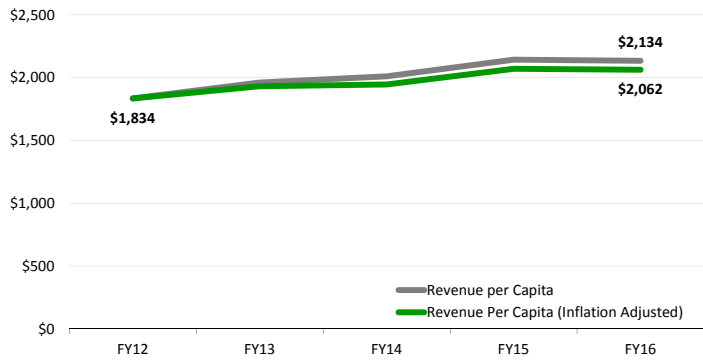
EXPENSES

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

OPERATIONS

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

Revenue Per Capita

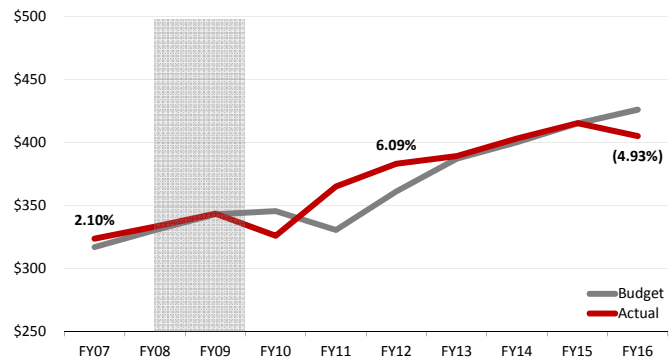


INTERNAL INDICATOR

FIVE-YEAR FORECAST 45

Revenue Accuracy

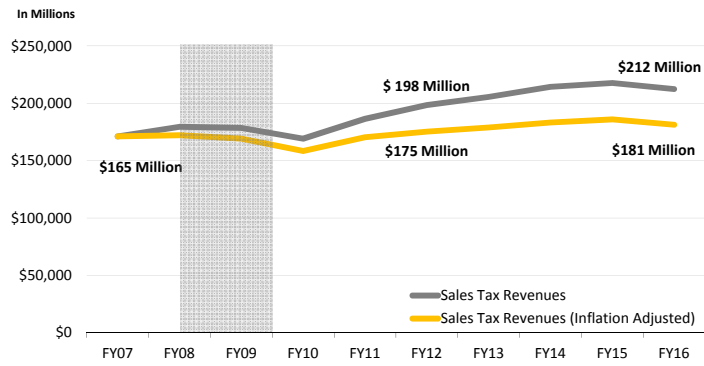
General Fund Collections Compared to Budget



INTERNAL INDICATOR

FIVE-YEAR FORECAST 46

Sales Tax Revenue

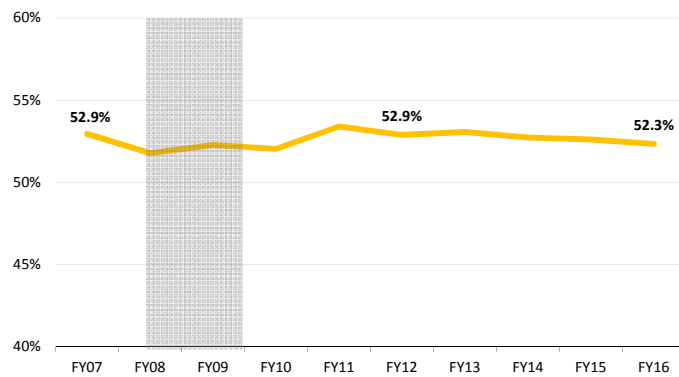


INTERNAL INDICATOR

FIVE-YEAR FORECAST 47

Sales Tax

As a Percentage of General Fund



INTERNAL INDICATOR

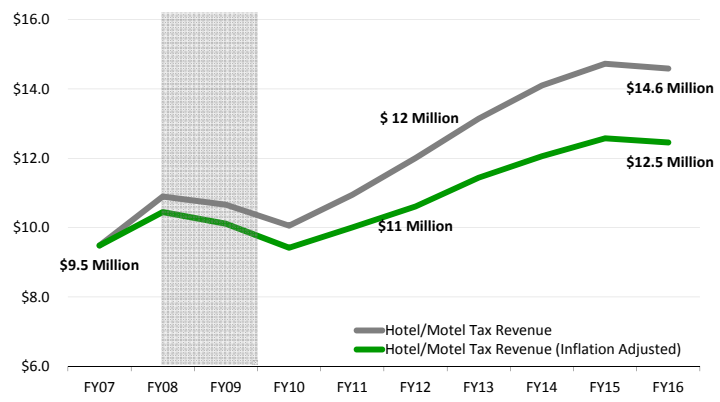
FIVE-YEAR FORECAST 48

Hotel Tax Revenue



FINANCIAL TRENDS

In Millions



INTERNAL INDICATOR

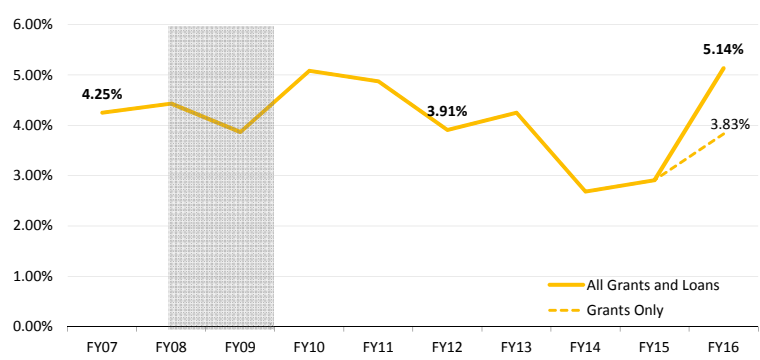
FIVE-YEAR FORECAST 49

Grant Revenue



FINANCIAL TRENDS

As a percentage of Total Operating Revenue

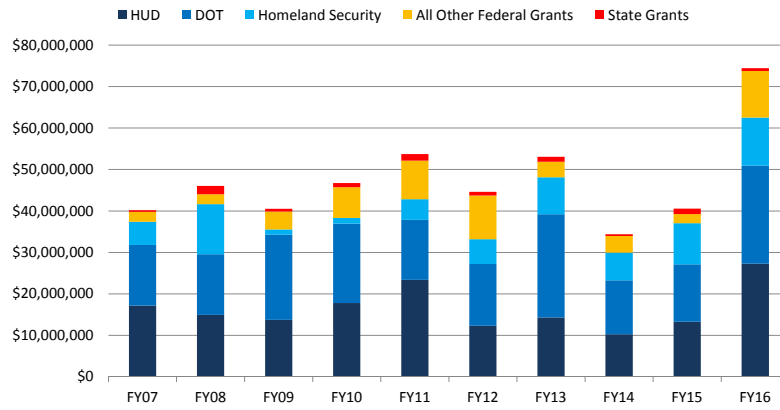


INTERNAL INDICATOR

FIVE-YEAR FORECAST 50

Grant Revenue

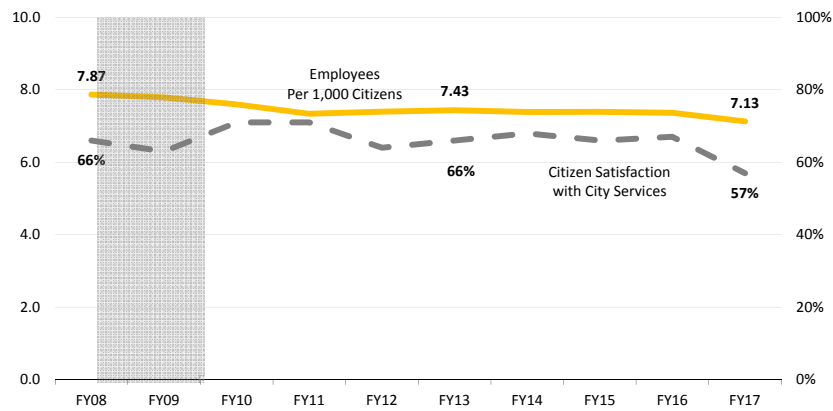
By Granting Agency



INTERNAL INDICATOR

FIVE-YEAR FORECAST 51

Employees Per 1,000 Citizens

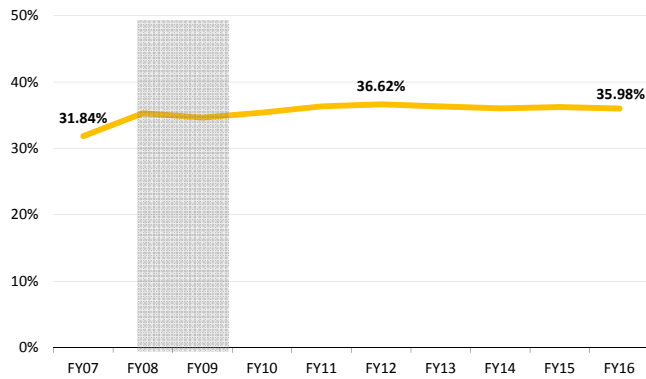


INTERNAL INDICATOR

FIVE-YEAR FORECAST 52

Fringe Benefits

As a Percentage of Total Compensation

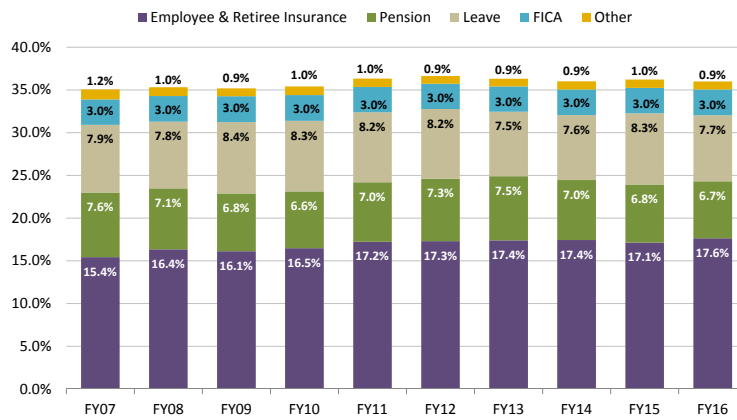


INTERNAL INDICATOR

FIVE-YEAR FORECAST 53

Fringe Benefits

As a Percentage of Total Compensation



INTERNAL INDICATOR

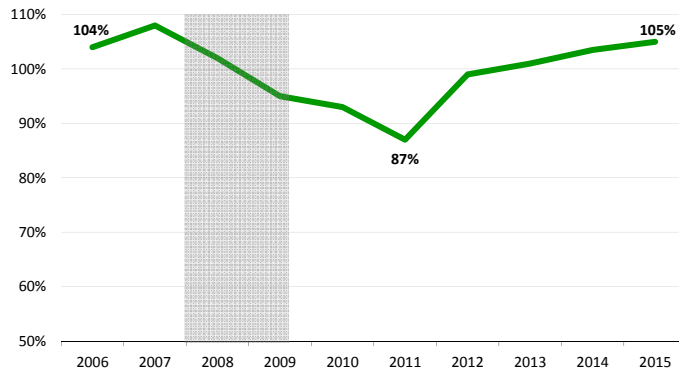
FIVE-YEAR FORECAST 54

Pension Funding



Oklahoma City Employee Retirement System (OCERS)

FINANCIAL TRENDS



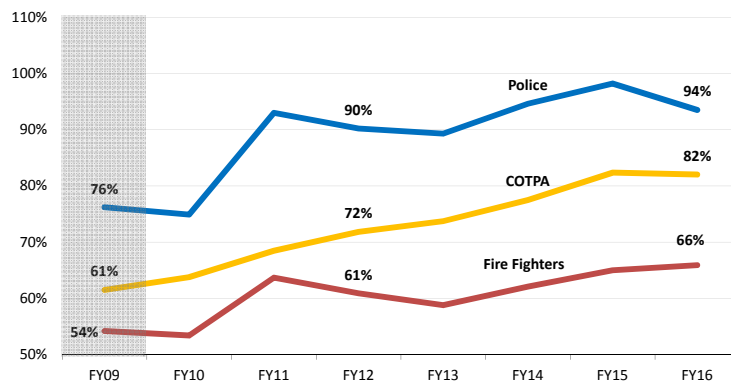
INTERNAL INDICATOR

FIVE-YEAR FORECAST 55

Pension Funding

Accrued Liability Funding Ratio

FINANCIAL TRENDS



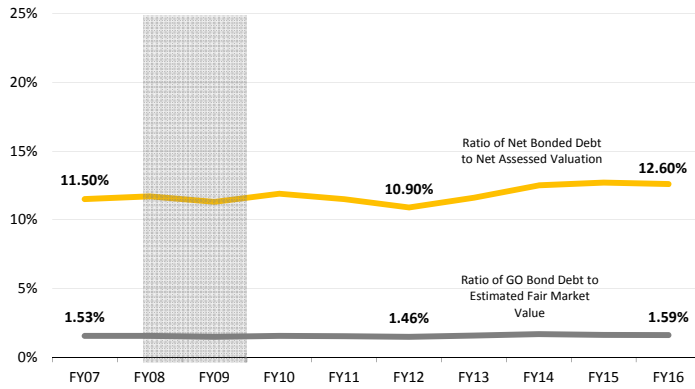
INTERNAL INDICATOR

FIVE-YEAR FORECAST 56

Long Term Debt

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

FINANCIAL TRENDS



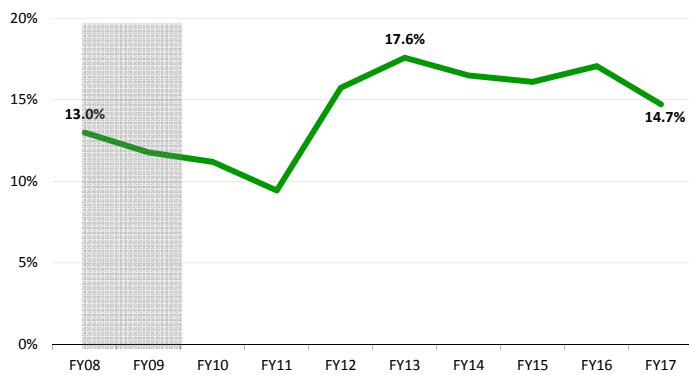
INTERNAL INDICATOR

FIVE-YEAR FORECAST 57

Fund Balance

As a percentage of General Fund Budget

FINANCIAL TRENDS



INTERNAL INDICATOR

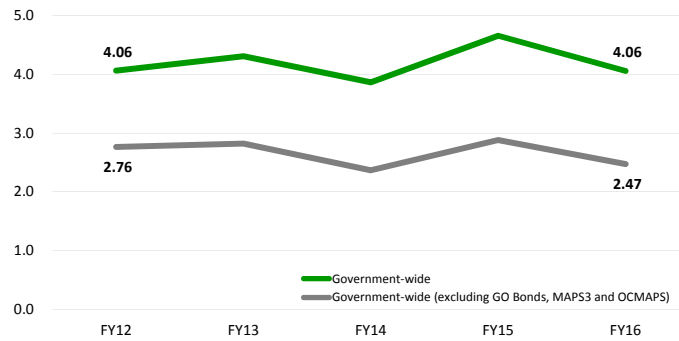
FIVE-YEAR FORECAST 58

Liquidity



FINANCIAL
TRENDS

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



INTERNAL INDICATOR

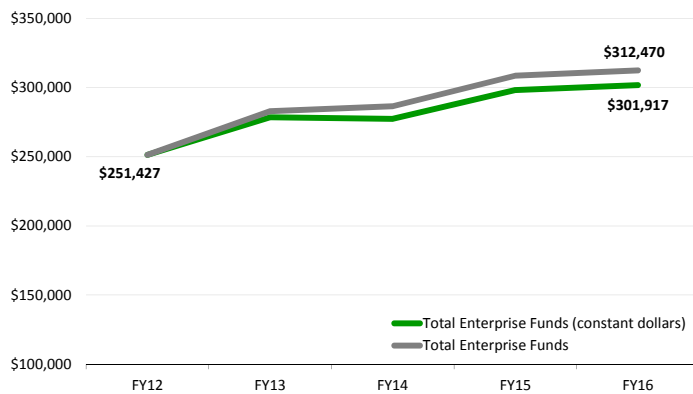
FIVE-YEAR FORECAST 59

Enterprise Working Capital



FINANCIAL
TRENDS

In Millions



INTERNAL INDICATOR

FIVE-YEAR FORECAST 60

Indicators We Need to Continue Monitoring

External Indicators

- Private Development Plans
- Active Drilling Rigs

Internal Indicators

- Revenue Accuracy
- Sales Tax Collections
- Liquidity

FIVE-YEAR FORECAST 61

FORECAST
ISSUES

FORECAST ISSUES



**FIVE-YEAR
FORECAST**
FY 2018-2022

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

- 1** Successful Outcomes
- 2** General overview of the issue
Not a detailed cost estimate
- 3** Provides early warning for emerging issues
departments will face in coming years

All 54 department issues are included in the forecast document beginning on page 83

SUCCESSFUL OUTCOMES



BODY WORN CAMERAS

- Pilot program outfitting 100 field officers
- Agreement with FOP for full implementation



COURT RECORDS SYSTEM

- Replaced a 23-year old legacy system
- Provides a path to eliminate paper
- Included first phase of eCitations in parking enforcement

SUCCESSFUL OUTCOMES



BUS NIGHT SERVICE

- 4 Fixed Routes and Paratransit service
- Monday through Friday, with 1-hour frequency



IMPACT FEES

- New fees to help infrastructure keep pace with growth

SUCCESSFUL OUTCOMES



EMPLOYEE MEDICAL CLINIC

- Designed to control cost of the health insurance plans
- Part of City's Wellness Initiative
- Served 2,411 eligible participants in first 10 months



OPEB LIABILITY

- New eligibility requirements for subsidized retiree health insurance
- Eliminated subsidized health insurance for new hires

SUCCESSFUL OUTCOMES



SOLID WASTE COLLECTION

- Long-term operating agreement awarded
- Every-other-week recycling for urban customers
- Pilot recycling stations for rural customers



WASTEWATER TREATMENT

- Long-term operating agreement awarded
- Strengthened service requirements, performance requirements and minimum staffing

FIVE-YEAR FORECAST 67

SUCCESSFUL OUTCOMES



WATER CONSERVATION

- Program focuses how water should be conserved and used wisely
- Two-tier rate plan to encourage conservation



WATER RIGHTS SETTLEMENT

- Provides Oklahoma City access to water from Sardis Lake in SE Oklahoma
- Governed by a system of lake level release restrictions

FIVE-YEAR FORECAST 68

Highlighted Issues

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



FACILITY CAPITAL MAINTENANCE COSTS

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

POSSIBLE DIRECTION AND NEXT STEPS

- Temporary Use Tax
- General Obligation Bonds
- Facility Charges

FUNDING STREET IMPROVEMENTS

- **Citizen's top priority**
- **\$1.0 million added to GF budget
(Beginning in FY14 \$250,000 added to budget each year)**

POSSIBLE DIRECTION AND NEXT STEPS

- Development Impact Fees
- Fuel Tax
- General Obligation Bonds

IMPACT OF BUDGET REDUCTIONS ON OPERATIONS

- **Declining General Fund Revenue**
- **FY18 Proposed General Fund Budget Anticipated to be close
to FY14 Funding Levels**

POSSIBLE DIRECTION AND NEXT STEPS

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



SECOND PIPELINE FROM LAKE ATOKA TO LAKE DRAPER

- Engineering and easement acquisition underway
- Construction to begin in 2018
- Additional improvements needed to transport water from Southeast Oklahoma Supply System to Oklahoma City and its customers along the pipeline and in the greater metropolitan area

POSSIBLE DIRECTION AND NEXT STEPS

- Cost of Service Study and Rate Adjustments

FIVE-YEAR FORECAST 73



CITY RESPONSIBLE FOR PROJECT OPERATING COSTS

- Streetcar / Downtown Park / Convention Center
- Preliminary projections included in the forecast and based on current timelines

POSSIBLE DIRECTION AND NEXT STEPS

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

FIVE-YEAR FORECAST 74



**FORECAST
ISSUES**

PUBLIC SAFETY RADIO COMMUNICATION SYSTEM

- **Current system will reach end of life in 2019**
- **Estimated replacement cost is \$13.1 million**

POSSIBLE DIRECTION AND NEXT STEPS

- Long-term Financing
- Cost Sharing
- General Obligation Bonds

FIVE-YEAR FORECAST 75



**FORECAST
ISSUES**

PUBLIC SAFETY SERVICE LEVEL IMPROVEMENTS

FIRE DEPARTMENT STAFFING

- **Need staffing for one additional Fire Station**
- **Costs for FY22 will be \$1.9 million higher than current staffing**

POLICE DEPARTMENT STAFFING

- **Staffing study recommended increased uniform and civilian staffing**
 - Added 129 sworn positions from FY12 – FY17 (48 are frozen)
 - Added 28 Civilian positions from FY12 – FY17

PUBLIC SAFETY FLEET AND FACILITIES

POSSIBLE DIRECTION AND NEXT STEPS

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

FIVE-YEAR FORECAST 76



PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

FACILITIES, FLEET, AND EQUIPMENT

- Replacement of City buses
- Extended Service Hours
- Regional Transit Operation

POSSIBLE DIRECTION AND NEXT STEPS

- General Obligation Bonds
- New Motor Fuel Tax

FIVE-YEAR FORECAST 77

REVENUES

GENERAL FUND REVENUES TRENDS AND FORECAST



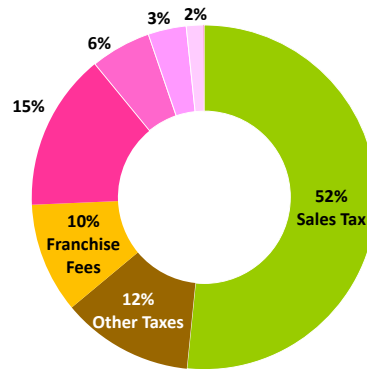
**FIVE-YEAR
FORECAST**
FY 2018-2022

FY17 General Fund Revenue

Where the money comes from

FY17 GENERAL FUND REVENUES
\$404,950,449 AMENDED BUDGET

- Other - Adm & Svc Charges
- Other - Fines
- Other - Lic., Permits, Fees
- Other - Miscellaneous

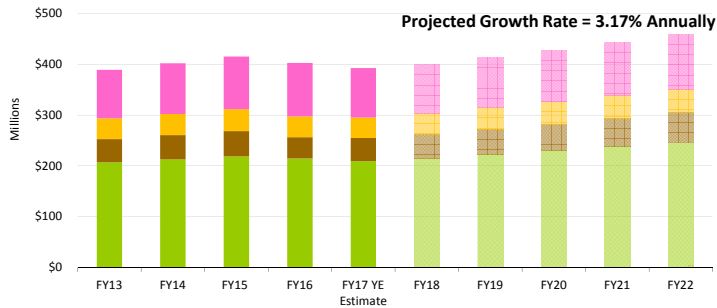


FIVE-YEAR FORECAST 79

General Fund Revenue

History and Projected Revenue Growth

- Sales Tax (3.27% Avg Annual Growth)
- Franchise Fees (2.57% Avg Annual Growth)
- Other Taxes (5.25% Avg Annual Growth)
- Other Revenue (2.19% Avg Annual Growth)



FIVE-YEAR FORECAST 80

GENERAL FUND EXPENSES TRENDS AND FORECAST

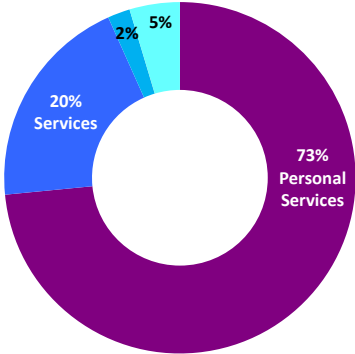


**FIVE-YEAR
FORECAST**
FY 2018-2022

FY17 General Fund Expenses Where the money is spent

FY17 GENERAL FUND EXPENSES
\$404,950,449 AMENDED BUDGET

- Supplies
- Transfers



Expenses included in the forecast

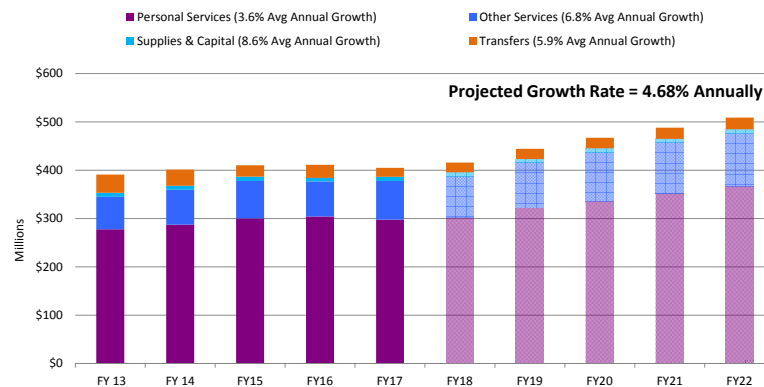
Additions to current service level

	FY18	FY19	FY20	FY21	FY22
Fire Staffing for New Station	\$0	\$916,419	\$1,906,152	\$1,982,398	\$2,061,693
Increased Police Staffing	\$0	\$1,489,580	\$3,098,326	\$4,833,389	\$6,702,300
Radio System Annual Replacement	\$975,000	\$975,000	\$975,000	\$975,000	\$975,000
MAPS 3 Park (Net Cost)	\$735,000	\$2,264,400	\$2,162,137	\$2,248,622	\$2,252,082
MAPS 3 Oklahoma City Streetcar	\$717,480	\$2,978,067	\$3,852,860	\$4,051,181	\$4,132,205
Bus Replacement	\$0	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Total	\$2,427,480	\$10,123,466	\$13,494,475	\$15,590,590	\$17,623,280

FIVE-YEAR FORECAST 83

General Fund Expenditures

History and Projected Expenditure Growth



FIVE-YEAR FORECAST 84

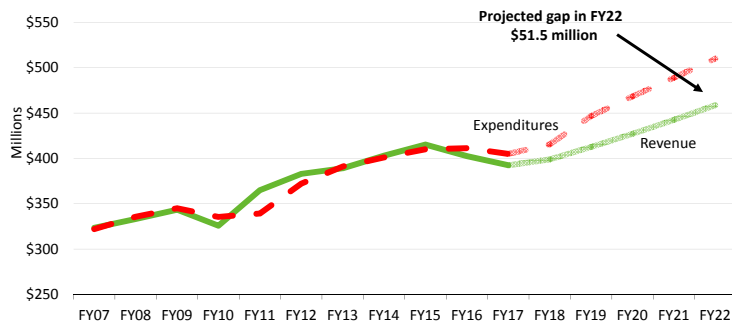
GENERAL FUND
REVENUE/EXPENDITURE GAP



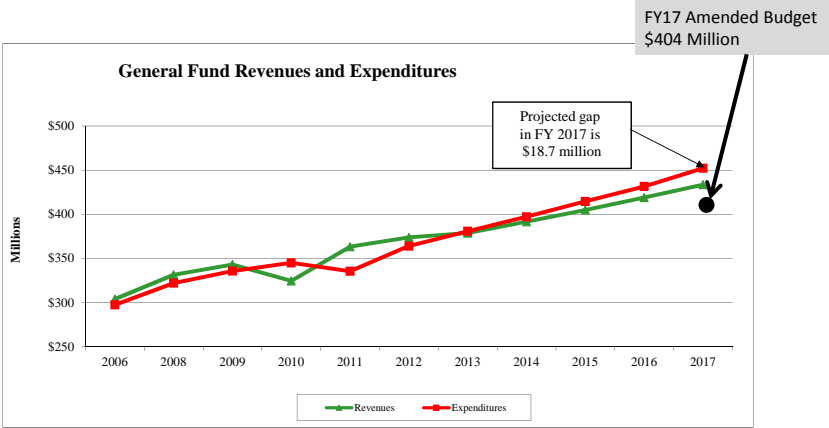
**FIVE-YEAR
FORECAST**
FY 2018-2022

Closing the Gap

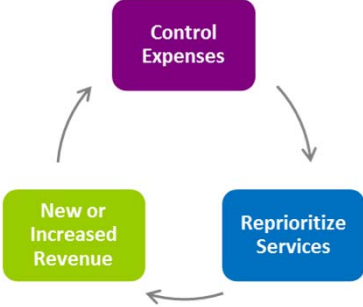
FY17 Five-Year Projection for General Fund Revenues and Expenditures



FY12 Forecasted Gap for FY17



Closing the Gap



FY18 BUDGET OUTLOOK



**FIVE-YEAR
FORECAST**
FY 2018-2022

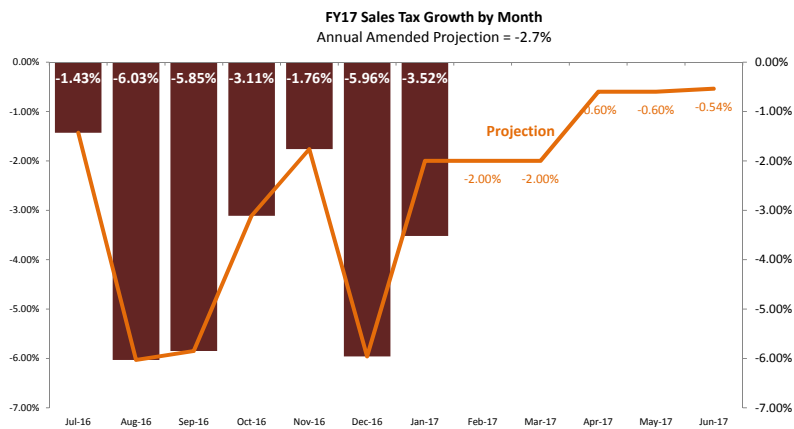
FY17 General Fund Revenue Status

Seven of the 10 revenue categories were below budget

- ▼ Sales Tax (\$0.3 million)
- ▼ Use Tax (\$2.8 million)
- ▼ Licenses, Permits, Fees (\$0.7 million)
- ▼ Fines and Forfeitures' (\$0.5 million)
- ▼ Other Revenue (\$0.4 million)
- ▼ Franchise Fees (\$0.3 million)
- ▼ Other Taxes (\$0.3 million)
- ▲ Service Charges \$0.8 million
- ▲ Administrative Charges \$0.2 million
- ▲ Transfers In \$0.05 million

GENERAL FUND
\$4.25 Million
BELOW AMENDED BUDGET

FY17 Sales Tax Revenue Status



FIVE-YEAR FORECAST 91

FY17 General Fund Budget Gap

MEASURES TO CLOSE THE GAP

- **Mid-Year Budget Reduction in FY17**
 - Reduced GF department budgets by \$4.4 million
 - Reduced capital spending by \$2.25 million
 - Reduced contingency by \$2.8 million
- **Continue hiring freeze**
- **Use of fund balance**

FIVE-YEAR FORECAST 92

FY18 General Fund Revenue Outlook

FY17 YEAR END REVENUE PROJECTIONS

- Down 2.54% from last year
- 2.41% below budget

FY18 REVENUE PROJECTIONS

- FY18 revenue is projected at \$401.7 million
- 1.64% above FY17 estimated year end revenue
- 0.81% below FY17 amended budget

Projected Revenue Growth in FY18

- | | |
|--------------------------|---------|
| • Sales Tax | 2.50% |
| • Use Tax | 4.00% |
| • Other Taxes | 1.00% |
| • Licenses and Fees | (5.97%) |
| • Fines | (0.55%) |
| • Other | 20.96% |
| • Service Charges | (0.42%) |
| • Administrative Charges | (3.42%) |

Risks to FY18 Revenues

- Energy sector recovers slower than projected
- National economy could contract
- Local labor force and employment do not grow as expected
- Construction activity slows even more
- Local retail sales are lost to online sales where sales tax is not remitted

FY18 Expense Assumptions

- Growth in a number of areas
 - Salary, Insurance and Retirement - \$3.5 million
 - Internal Service Funds = \$1.2 million
 - Other Adjustments = \$2.5 million
- Expenditure cuts of 4.0% requested from most General Fund departments
- Expenditure cuts of 1.25% requested from Police and Fire

FY18 Budget Calendar

MAY

- 2nd Proposed Budget submitted to Mayor and Council
- 9th 1st Finance Committee Meeting (Public Hearing)
- 23rd 2nd Finance Committee Meeting (Public Hearing)

JUNE

- 6th 3rd Finance Committee Meeting (Public Hearing)
- 13th Adoption of FY18 Budget



JULY

- 1st FY18 Budget takes effect

