



THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY16-20



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SECTION 1

EXECUTIVE SUMMARY

The Five-Year forecast provides an evaluation of the city's current financial condition as well as a view of the economic, financial, and operational outlook for the city. This year, the city has again worked with Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University, to develop the economic forecast for the coming year.

Dr. Evans' forecast projects continued growth in the local economy, although at a much slower rate due to short run challenges from falling oil prices impacting the state and local economy. Dr. Evans developed two possible scenarios for sales tax growth. The projection with short run and long run effects being given equal weight, projects 2.15% growth in sales tax in Fiscal Year (FY) 16.

In addition to normal sales tax growth projections, sales and use tax remittances from the state will increase 0.5% beginning July 1 due to the implementation of House Bill 1875 which reduces the state's withholding from sales and use tax remittances from 1% to 0.5% to reflect the actual cost of enforcing tax collections.

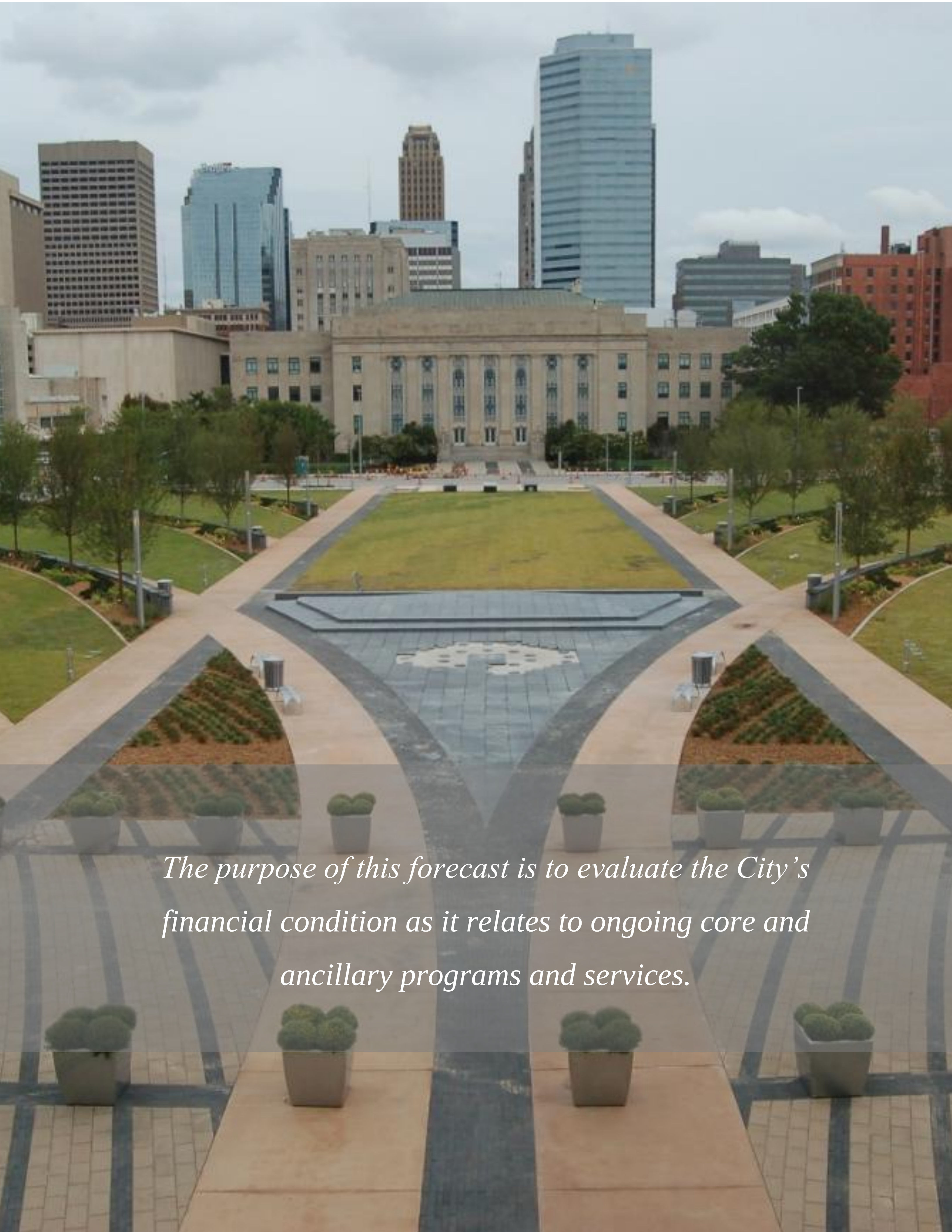
The revenue forecast for the General Fund projects overall revenue growth of 2.14% next year and average annual growth of 3.7% over the five year forecast period. Sales tax remains the key revenue source for the General Fund, accounting for more than 50% of all revenue. Sales tax is projected to grow at 2.15% next year and at a rate of 3.9% per year in the following years based on historical trends.

Expenditures are forecasted to grow at an average rate of 5.0% per year over the forecast period. Personal services, the largest category of expenses, is projected to grow at a 4.4% per year due to increased salary and benefit costs, additional positions for Fire to staff two new fire stations that will open within the next five years, and a desire to add additional Police positions. Growth in other expenditure categories include estimated amounts for the MAPS 3 Park and Modern Streetcar, both of which are expected to open to the public in FY18, bus replacement beginning in FY17, and general operating increases at various rates based on historical trends.

The imbalance in revenue and expenditure growth patterns means that there is a projected gap of $31.7 million by FY20.

The Five-Year Forecast document that follows is the same format as previous years and once again includes the Financial Trend Monitoring System (FTMS) which is designed to take multiple key indicators and consider the trend of these indicators to assess Oklahoma City's current financial condition. This system provides the city with a more comprehensive evaluation of financial condition rather than focusing on individual indicators, such as fund balance. The overall results of the FTMS indicator ratings were 14 positive, 7 neutral and 1 negative. Also included in the forecast are the key issues facing departments over the coming five years. By laying out the many challenges that departments have identified, long-term strategies and priorities can be set to address those issues. The final sections of the forecast present revenue and expenditure trends with projections for the next five years.

Overall, the forecast is optimistic and indicates the city is in a favorable financial position. However, with a slowing energy sector it is very probable that adjustments will have to be made to the forecast as the short run challenges from falling oil prices begin to emerge. In FY16, desired program improvements that are included in the initial projections, or are being submitted by departments, may not be achievable. Staff will continue to work with the City Manager to present Council with a proposed budget that balances operating needs with available resources.



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

SECTION 2
INTRODUCTION

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

1. Compliance

Complies with city financial policies and practices designed to ensure the responsible utilization of public resources. State law, through the Municipal Budget Act, specifies certain policies while internal policies are established by City Charter or Council ordinance or resolution.

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

2. Strategy

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

By identifying long-term issues and assessing resources, the forecast is able to provide information to create continuity between annual budget cycles and meet the long term needs of the city. The forecast is a valuable tool for identifying potential problems and for policy makers to incrementally address such problems in a manner that provides seamless continuation of core services.

3. Accountability

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

City Hall. A City Charter amendment in 1927 established the Council-Manager form of government. In this form of city government, an elected Mayor and City Council set policy and conduct city business. The Mayor and Council appoint a professional City Manager to carry out the day-to-day operations of city government. At left, is a photo of City Hall which houses the offices of the Mayor, City Council, City Manager, Municipal Counselor, City Clerk, City Auditor and Public Information and Marketing, Action Center, and City Print Shop. The Council Chamber, located inside City Hall, is used by many departments and agencies, including the Airport Trust, Water Utility Trust, Planning Commission, Historic Preservation Commission and OCMAPS Trust for public meetings.

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

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

Structure of the Report

This year's Five-Year Forecast follows last year's format. Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University (OCU), developed Section Three, Economic Forecast. The City has contracted with OCU to provide the most rigorous forecast available. The information from the economic forecast informed the estimation of sales tax revenues in the preliminary budget for FY16 and this forecast.

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

Section Five of the Forecast provides an overview of the major issues facing city departments. The goal is to provide an *"early warning system"* to the City Manager and City Council of significant issues that are beyond the scope of the annual budget process.

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

THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY16-20

The fiscal outlook will be determined by the interplay of short run distress from falling oil prices and long term trends of economic development along the I-35 corridor.

Steven C. Agee

Economic Research & Policy Institute

National, State, and Local Economic Outlook: 2015-2016

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Executive Summary

After a slow start to 2014, the U.S. economy rebounded to finish the year strongly. Gross domestic product of grew at 4.6% and 5.0% in the second and third quarter respectively. Growth continued to post better-than-average gains in the fourth quarter leading the chief economist of the World Bank to comment that the U.S. economy was the single engine powering the global economy. Growth is expected to carry into 2015 with the U.S. economy posting solid - if unspectacular - nonfarm payroll employment gains as unemployment rates continue to decline through the year.

The Federal Reserve has indicated some inclination towards taking the first step of normalization of monetary policy by raising short-term interest rates off their zero lower bound in the middle of the year. A slowing global economy is driving a flight to the safety of U.S. Treasuries, keeping long-term interest rates down even after the Fed concluded a final round of quantitative easing. Global conditions will likely keep both short- and long-term interest rates in check through 2015, possibly even extending the period through which the Federal Reserve maintains its zero interest rate policy.

An U.S. oil and gas renaissance has led to production levels not seen in 40 years with the U.S. currently producing in excess of 9 million barrels per day. This makes it the world's number two oil producer just behind Saudi Arabia and just ahead of Russia. The oil and gas industry has led the post-recession economic recovery and puts the nation where Oklahoma has long stood – striving to find a balance between the benefits to consumers from falling oil prices and the costs to the economy from industry slowdowns. OPEC leaders have successfully talked the market down to nearly $45 per barrel.Recent comments suggest prices fell further than they had intended or thought necessary to discourage the pace of production and remove some production from the market. OPEC leaders and individual oil ministers have recently called a bottom in the oil market, trying to talk the market back up to prices they see as consistent with moderating the pace of development in the U.S. and other foreign markets. The consensus (such that there exists a consensus view on oil prices) seems to be that prices should increase through 2015 before settling in a range of $65 to $85 by the end of 2015 and hold that range through 2016. Our state and local forecast is predicated on this price path coming to pass.

Economic conditions in Oklahoma improved in 2014 after a relatively lackluster 2013. Statewide private sector employment grew at a 2.4% pace in 2014, for a 2011 to 2014 post-recession average growth rate of 2.2%. Payroll employment growth was more than enough to offset strong population gains and keep downward pressure on the state's unemployment rate which averaged only 4.6% for the year.

An oil price fall as far and as fast as the market experienced over the last seven months is unambiguously bad for the state's economy. How bad, however, remains to be seen. Residents, business leaders, and policymakers who have lived through significant periods of the state's economic history have come to expect busts to follow booms as surely as thunder follows lightning. Busts, however, have as much to do with expectations as current conditions. The state's most famous bust of 1982, accelerated by Saudi Arabia's production in 1986, lasted nearly 15 years by most economic metrics. The severity of the bust rested on the expectations developed around Saudi policy that oil prices would not only be driven low but would stay low for a considerable time. The bust of 2008 was much shorter-lived - but just as steep - as active rigs in the state fell from more than 210 to 75 in just one year. Again, the rapid adjustment of producer behavior was the product of uncertain expectations that the world could be heading towards a long-lived global recession suppressing future demand for energy. Once concerns of the worst subsided and expectations adjusted to the new economic reality, rig activity quickly resumed. At current, expectations are that oil prices have fallen further and faster than economic conditions warrant and that a modest rebound is forthcoming. Against this backdrop, both exploration and production companies as well as service companies will work to manage the short run challenge posed by current prices, but steep behavior changes are only likely if expectations of future conditions worsen. While we have come to expect oil busts to follow oil booms, this may be the year of the oil ebb.

Our baseline forecast is for modest contractions in both the oil and gas and manufacturing sectors in 2015 with the ripple effects of weakness in one of the state's core industries bringing a year below to just at the state's long run average. The combined effect calls for private sector payroll growth of only 1%, with losses in mining and manufacturing offset by modest gains in construction, leisure services, health services, and retail trade leading for the year.

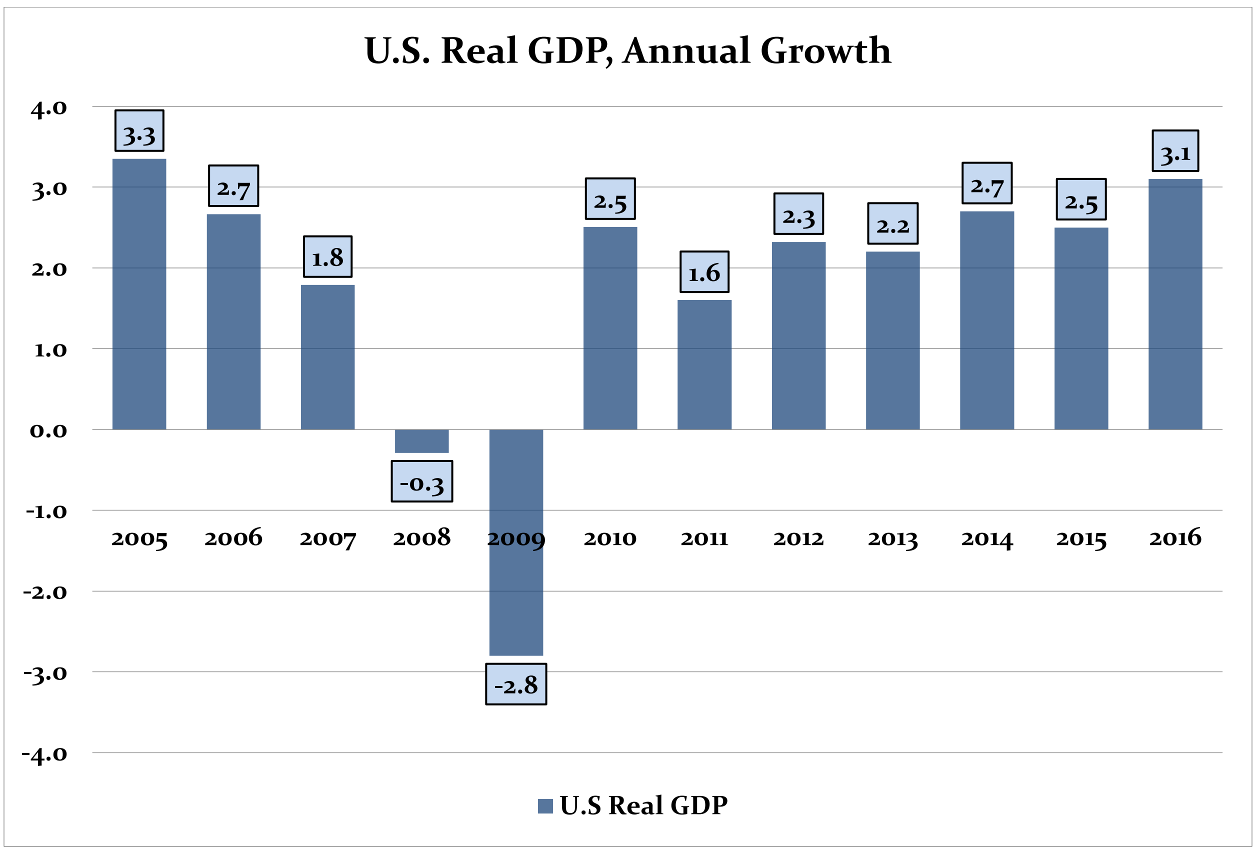
Oklahoma City continues to enjoy the fruits of economic geography as economic activity concentrates along the I-35 corridor megalopolis. Population growth in the city is among the fastest in the nation averaging nearly 1.6% per year since 2007. Importantly, Oklahoma City's population growth rates trail the corridor cities to the south including Dallas, Austin, Houston, and San Antonio, portending the continuation of economic growth up the corridor. As people and income congregate in the metro area, household demand for consumer services follow.

Oklahoma City's 2014 growth was led by explosive gains in construction employment (up 12.2%) and employment in leisure services (up 8.8%). Also posting strong payroll gains in 2014 were health services and retail trade, two industries that follow naturally from population growth. Falling oil prices will slow the pace of income gains in 2015, particularly among those who rely on bonus check, override income, or royalty payments to supplement monthly incomes. The expectation is that the momentum of long run inertia is stronger than the forces of short run weakness, leading to modest growth in 2015.

The baseline forecast is for private sector employment in the metro area to expand at a 1.7% annual pace – roughly half the 4-year average established from 2011 to 2014. Employment gains will be led again by demand for consumer services including construction, leisure, health care, and retail trade. Metro area unemployment rates are expected to tick up in 2015, averaging 4.3% for the year compared to the 4.1% average set in 2014. Oklahoma City per capita personal income is estimated to have grown to $44,899 in 2014 and is expected to reach $45,611 in 2015.

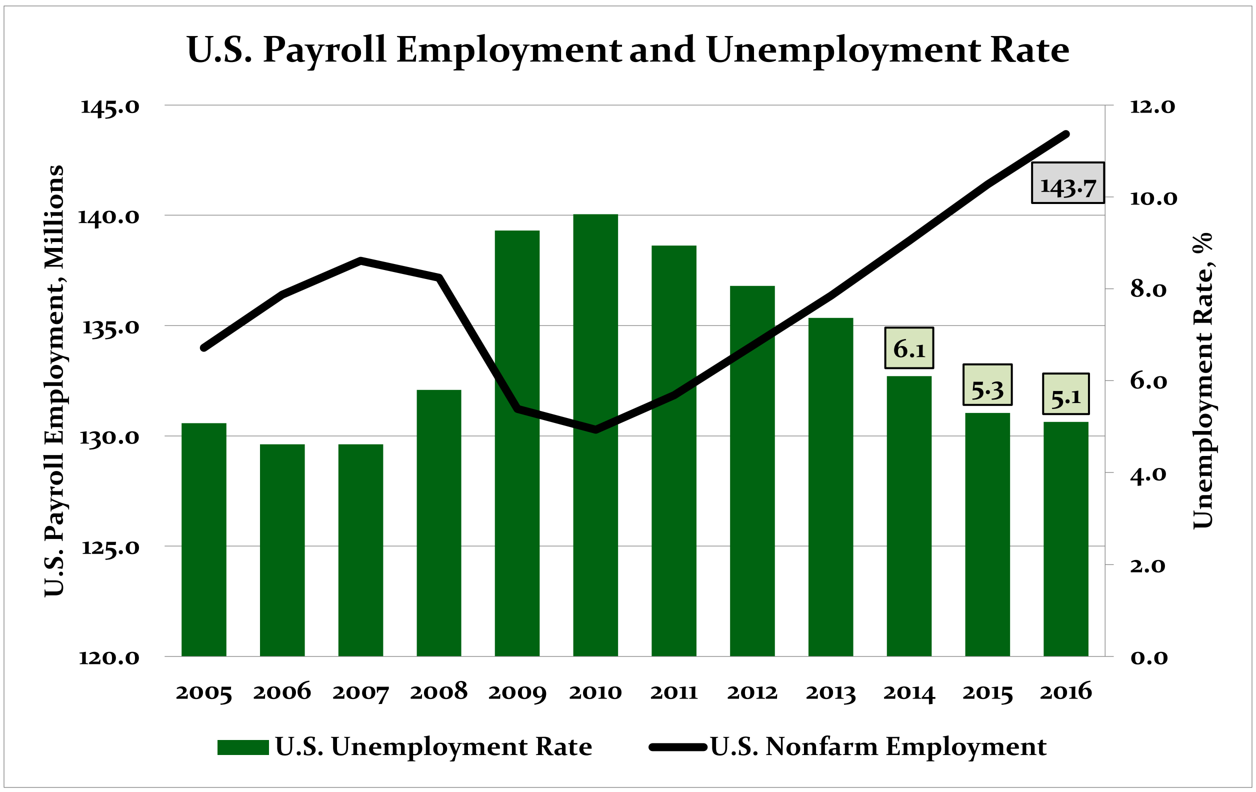
National Economic Outlook and Commentary

U.S. real gross domestic product expanded at an annual rate of 3.5% in the fourth quarter of 2013. The momentum – carried largely by strong personal consumption expenditure growth – seemed sure to carry into 2014. Calls for the U.S. economy to expand at a rate of 3% or greater abounded (and we joined the chorus!). Then an unexpected and prolonged winter weather pattern set up over much of the U.S., followed by instability oversees as Russia annexed the Crimean Peninsula, disappointing economic performance in Europe, an Ebola outbreak in Africa, and more. The combined result was a contraction of the U.S. economy in the first quarter of 2014 at an annual pace of -2.1%. The economy regrouped in the second quarter with pent up demand from the weather-induced slump of the first quarter leading to a 4.6% expansion, followed by a 5.0% expansion in the third quarter. Initial estimates put fourth quarter growth at 3.2%. The strong finish to the year will offset much of the first quarter contraction, leaving annual GDP growth near 2.7%.



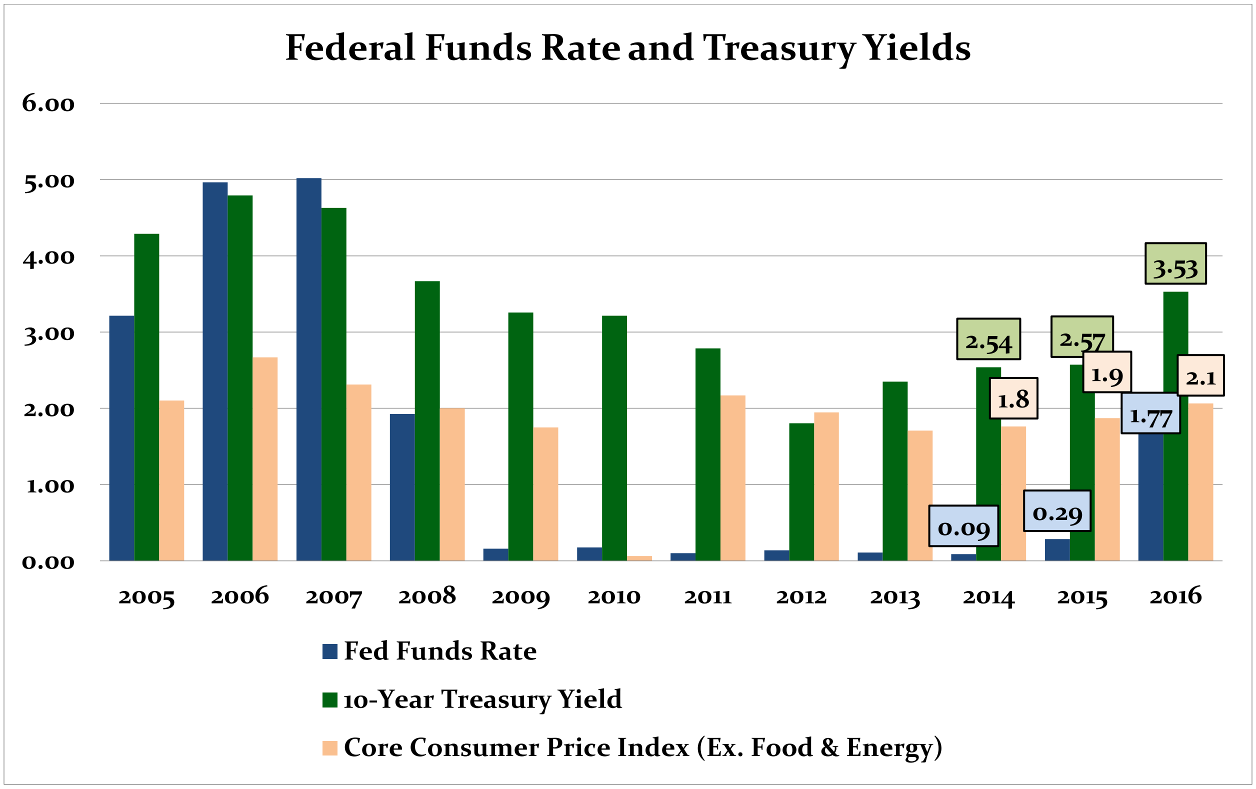
World Bank chief economist Kaushik Basu recently noted that the global economy was running on a single engine – the U.S. economy. The fall in oil prices, while positive overall for consumers, will slow the pace of investment in growth in an energy industry that is increasingly important in the national economic landscape. General weakness abroad will likewise contain the U.S. upside in 2015. While much is still uncertain even as we begin the new year, we expect a modest year of expansion with the U.S growing at an annual rate of 2.5% in 2015 with baseline expectations of 3.1% growth in 2016.

The national labor market continues to improve slowly. Headline unemployment rates (currently 5.6%) overstate the strength of the labor market as participation rates and economic opportunities continue to limit opportunities for many workers.



The U-6 measure of unemployment measures the share of the labor force and those marginally attached to the labor force that are unemployed and actively seeking employment, unemployment and willing to work but no longer actively seeking employment, and/or employed part-time for economic reasons. The U-6 unemployment rate is currently 11.2% and the labor force participation rate is at a low of 62.9%. Both measures indicate significant slack remains in the labor market – an important consideration when forming inflation expectations.

Indeed, the slack in the labor market is one reason the labor market continues to see an absence of significant wage gains. Stagnant wages and falling energy prices are combining to keep inflation and inflation expectations low in spite of years of terrifically accommodative monetary policy. Recent discussions from Federal Reserve officials seems to indicate that there is some appetite for delaying a pullback from zero short term interest rates as supporters argue that it is easier to maintain economic momentum than it is to regain economic momentum if rates are raised too soon.



Our baseline expectation remains a shift in Federal Reserve policy in mid-21015, but, as indicated previously, momentum is growing to defer the rate hike until later in the year. Regardless, as the lone source of global economic strength, a movement to safe assets in 2015 is expected to maintain demand for U.S. treasuries and keep a lid on long-term rates. Our baseline forecast is for 10-year yields to average only 2.57% in 2015, even with a change in Fed policy. If the Fed holds short-term rates lower longer and if global weakness persists through much of the year, 10-year yields will struggle to reach even this level. Also reflected above is our forecast for inflation, with core price movements at 1.9% and 2.1% in 2015 and 2016 respectively. Expected inflation remains below the Federal Reserve target offering cover for dovish policies to stay the norm in 2015.

National challenges remain with the uncertain future path of energy prices and global economic performance clouding the outlook. The U.S. economy faces its own challenges as the Federal Reserve takes steps to normalize its balance sheet and tax policy, immigration policy, and health care policy all remain active topics for reform. Journal volumes could be (and have been) filled with commentary on each of the challenges just identified and further commentary here seems unnecessary. However, as concern over rising income inequality has moved to the forefront of many discussions, both local and national, a few comments may be merited.

Longer-term trends of rising household income at the top of the income distribution relative to households at the bottom of the distribution have been exaggerated in the post-recession recovery. The recession hit working middle-class families (and men in particular) hardest the steep declines in manufacturing and construction led the recessionary contraction. Falling home prices left many families exposed to the reality of being heavily leveraged in a single asset. Artificially low interest rates driven by Fed policy – zero fed funds rate and successive rounds of quantitative – drove capital-to-equity markets and stock markets to all-time highs. The result was household income at the low end (dominated by weak labor market conditions and stagnant wages) stalling while household income at the top end (dominated by capital asset appreciation, rising rental and dividend income, etc.) grew substantially. The result is a not entirely unexpected rise in the household income gap.

A second long-term trend contributing to income inequality in the U.S. is the movement to and concentration of economic activity in large, densely populated urban areas. The income gap between households is in part a reflection of the income gap between urban and rural areas. Thus, income inequality is as much an issue of economic geography as economic policy. While a return (perhaps in 2016?) to widespread and sustained economic strength should generate wage and compensation gains and mitigate some of the rising inequality, policies to offset the urban/rural divide are not so clear. It is expected that issues of income inequality – both social and economic – will be part of the national economic discussion for generations to come.

Oklahoma Economic Conditions and Outlook

Oklahoma nonfarm payroll employment grew at a 1.2% annual rate in 2013, a pace roughly equal to the state's 10-year long-run average. Employment growth picked up in 2014 with preliminary estimates placing nonfarm employment growth at 1.9%. The final two columns on the table below compare the Oklahoma employment experience in the four years immediately prior to the great recession to the four year immediately following the great recession. From 2005-2008, Oklahoma nonfarm employment and private sector employment averaged annual growth of 2.1%. In the post-recession period nonfarm employment has averaged 1.7%, slightly off the pace set during the previous expansion. Private sector payrolls, however, posted average growth of 2.2% in the post-recession period, slightly ahead of its 2.1% pace set during the expansion.

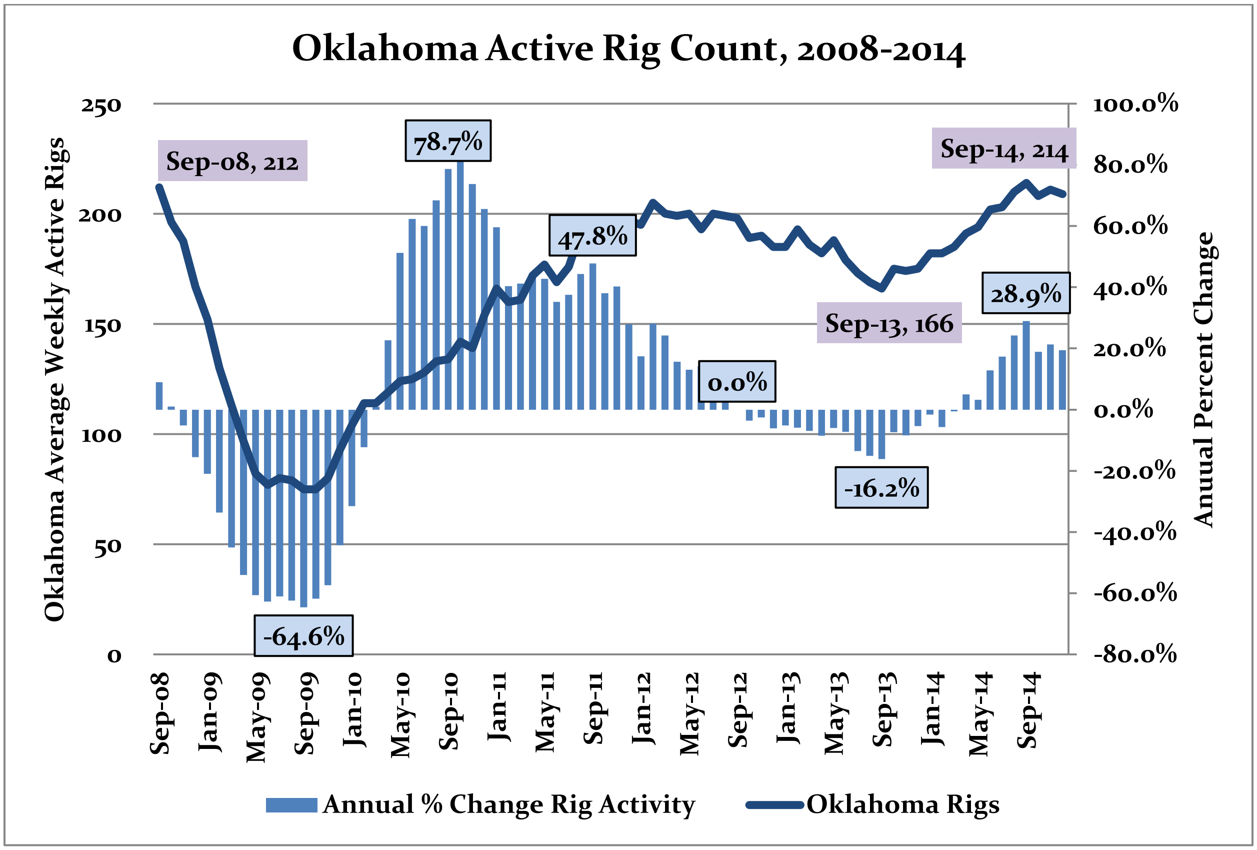
Growth Trends: Major Employment Sectors Oklahoma

Annual Growth	2011	2012	2013	2014	10-Year Average 2005-2014	Pre-Recession Average 2005-2008	Post-Recession Average 2011-2014	2015
Nonfarm	1.4%	2.3%	1.2%	1.9%	1.1%	2.1%	1.7%	0.9%
Private	2.2%	2.7%	1.4%	2.4%	1.1%	2.1%	2.2%	1.0%
Mining	17.6%	12.8%	2.6%	1.2%	6.9%	12.5%	8.5%	-0.8%
Construction	1.9%	3.1%	5.8%	3.7%	2.2%	4.8%	3.6%	2.3%
Leisure and Hospitality	2.8%	3.0%	3.2%	4.9%	2.1%	2.2%	3.5%	3.0%
Manufacturing	5.3%	4.5%	0.7%	2.9%	0.0%	1.3%	3.3%	-0.3%
Trade, Transport, Utilities	1.9%	2.7%	1.4%	2.2%	0.9%	1.3%	2.1%	1.5%
Professional/Business Svcs.	2.1%	2.1%	1.2%	0.9%	1.2%	3.0%	1.6%	-0.5%
Education and Health	0.6%	1.4%	0.4%	2.3%	1.7%	2.3%	1.2%	1.9%
Financial Activities	-0.6%	0.8%	1.0%	3.0%	-0.1%	-0.2%	1.0%	1.4%
Government	-1.3%	0.9%	0.3%	-0.2%	1.2%	2.1%	-0.1%	0.5%
Other Services	-3.0%	-0.3%	-0.7%	2.0%	-0.3%	1.0%	-0.5%	1.3%
Information	-5.3%	-2.2%	-3.1%	-3.4%	-3.8%	-1.9%	-3.5%	-2.6%

The state's recovery and expansion have been led by the energy industry with annual employment growth of 17.6% and 12.8% in 2011 and 2012. Average growth in the employment of the state's oil and gas companies slowed to 2.6% and 1.2% in 2013 and 2014. Employment strength in the construction, leisure and hospitality (primarily restaurants and hotels), and manufacturing also contributed to the recovery, with each averaging greater than 3.3% annual employment growth in the post-recession recovery.

Both the pre-recessionary and post-recessionary expansions served to underscore Oklahoma's economic identity as an energy state. The physical reminders are everywhere from the corporate headquarters in Oklahoma City and Tulsa to the active rigs in western and south central Oklahoma and a myriad of service providers in between. The past path trod by the industry has left an undeniable imprint on the state's economy and has largely carried the state's recent economic development. The future path is less clear.

Crude oil spot prices hit a 2014 high in June at just over $107/barrel before starting a largely uninterrupted decline. Spot prices fell every week through the end of the year (save two exceptions) with the most recent weekly price gain realized in late September. Price drops foreshadow a slowdown in the rate of field development, rig activity, and extraction.

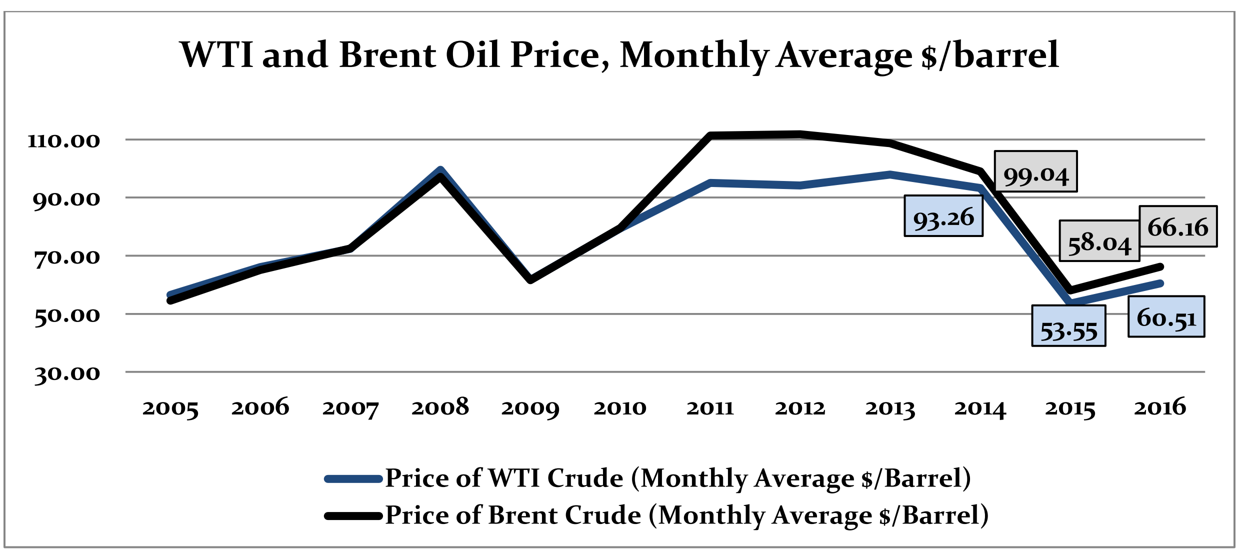


Rig activity peaked prior to the great recession in September of 2008 when the state averaged 212 active rigs for the month. Rig activity fell by 64.6% by September of 2009 before growing off that low by 78.7% in 2010. Rig activity climbed through 2011, held steady in 2012, dropped modestly in 2013, and expanded in 2014 to return to peak levels nearly identical with September 2008.

With rig activity nearly where it was in 2008 and watching prices fall far and fast for six months leaves many with anxieties of a 2008 repeat (or worse, a 1982-1986 repeat). The economic reactions to falling oil prices likely have as much to do with expectations of the future as concern over the present.

In 2008, the world was ending. The financial system was in widespread distress. The Federal Reserve balance sheet was growing in excess of 1,000% per year. For many, a global depression seemed not only plausible, but a reasonable expectation. Indeed, economic prognostications of a post-apocalyptic, dystopian society generally reserved for teen fiction novels seemed as reasonable an expectation as any. Such was the fear, anxiety, and uncertainty that defined the global economic system. In response to such anxieties and uncertainties, the economic world seemed to stop turning for a brief moment. Once the fear had passed and it became clear some economic normalcy would return (a new normal?), activity resumed and a quick rebound in the energy sector led the way in Oklahoma.

While there is considerable concern over the future price and production path today, no such rampant fears and anxieties characterize today's oil market. As of now, expectations are that prices find a floor in the first half of 2014. As the price stabilizes around its floor, volatility will decrease, taking with it short term speculators who profit from volatile price swings, further decreasing price volatility. Price will then move through the second half of 2015 and 2016 in response to fundamental supply and demand changes – production decisions, supply disruptions, demand growth (or lack thereof), etc. We expect prices to rise over 2015 and 2016.



Our baseline forecast is for WTI crude prices to carry a monthly average price of $53.55 in 2015 and $60.51 in 2016. As a reminder, our crude oil (and natural gas) price forecasts are less about establishing a price prediction for oil than establishing a parameter for the economic outlook. Oil prices and projections will change often throughout the year and certainly more complex and dynamic price forecasts exist than the one we have reported here.

The important takeaways from the preceding energy discussion are as follows. First, current expectations are very much different than they were in the fall of 2008 and early 2009. The most recent rig counts indicate rig activity has fallen from September levels by 13.5% in North Dakota, 10% in Texas, and 4% in Oklahoma. The national consensus seems to be for roughly 20% less rig activity nationally, with remaining rig activity concentrated in areas with high infrastructure and services already in place to minimize extraction costs. We expect rig activity to fall in Oklahoma as well and certainly expect to see its impact on the state's economy. However, unless expectations change (i.e. expectations that oil prices will follow significantly further and stay low significantly longer), the challenge should look very different from 2008 (and 1986). Second, the economic outlook is sensitive to oil price paths very much different from our baseline expectations. The economic forecast is robust to small variations in the time path of oil prices, but large variations will exert a much different impact on economic outcomes.

Oklahoma's urban areas remain critical to the state's economic health and, indeed, drive the state's headline economic numbers. In the post-recession recovery the Oklahoma City market has been especially influential in state economic metrics. Tulsa has shown signs of strength, but remains more reliant than Oklahoma on national conditions and is expected to increase its pace of expansion as national conditions strengthen.

The importance of urban areas in determining the state's headline economic numbers should not necessarily imply widespread economic weakness in the rural areas of the state. Oklahoma remains much less urbanized than the nation as a whole in part because of the economic opportunities available. A recent report released under The Equality of Opportunity Project examined the upward mobility of regions in the United States.[1] Using a large data set that linked the birth certificates of children to their parent's tax filings, then followed those children through their lives and on to their own tax filings as adults, the authors established a baseline probability

[1] See www.equality-of-opportunity for information on the studies and their authors.

of earning income in the top 20% of the income distribution (the top quintile) given that the individual was born into a household in the bottom 20% of the income distribution (the bottom quintile). The authors found a U.S. average rate of upward mobility of 7.5% - much lower than much of the developed world. However, the authors also found that upward mobility in the U.S, while relatively stable over time, varied greatly across regions.

Regional upward mobility was computed for each commuting zone in the U.S. for which a sufficient number of observations existed. The relative upward mobility for key areas of Oklahoma is reported below. Given that an individual was born into a bottom-quintile household in Woodward or Elk City, his or her probability of moving to the top quintile as an adult was 20% and 18.7% respectively. Recall that the national average rate of upward mobility was 7.5%, suggesting that an individual born and raised in Woodward or Elk City was 2.5 times more likely to reach the top quintile than the national average. Individuals in Guymon or Enid were more than 2 times as likely to reach the top quintile. The mobility of remaining state areas can be interpreted similarly.

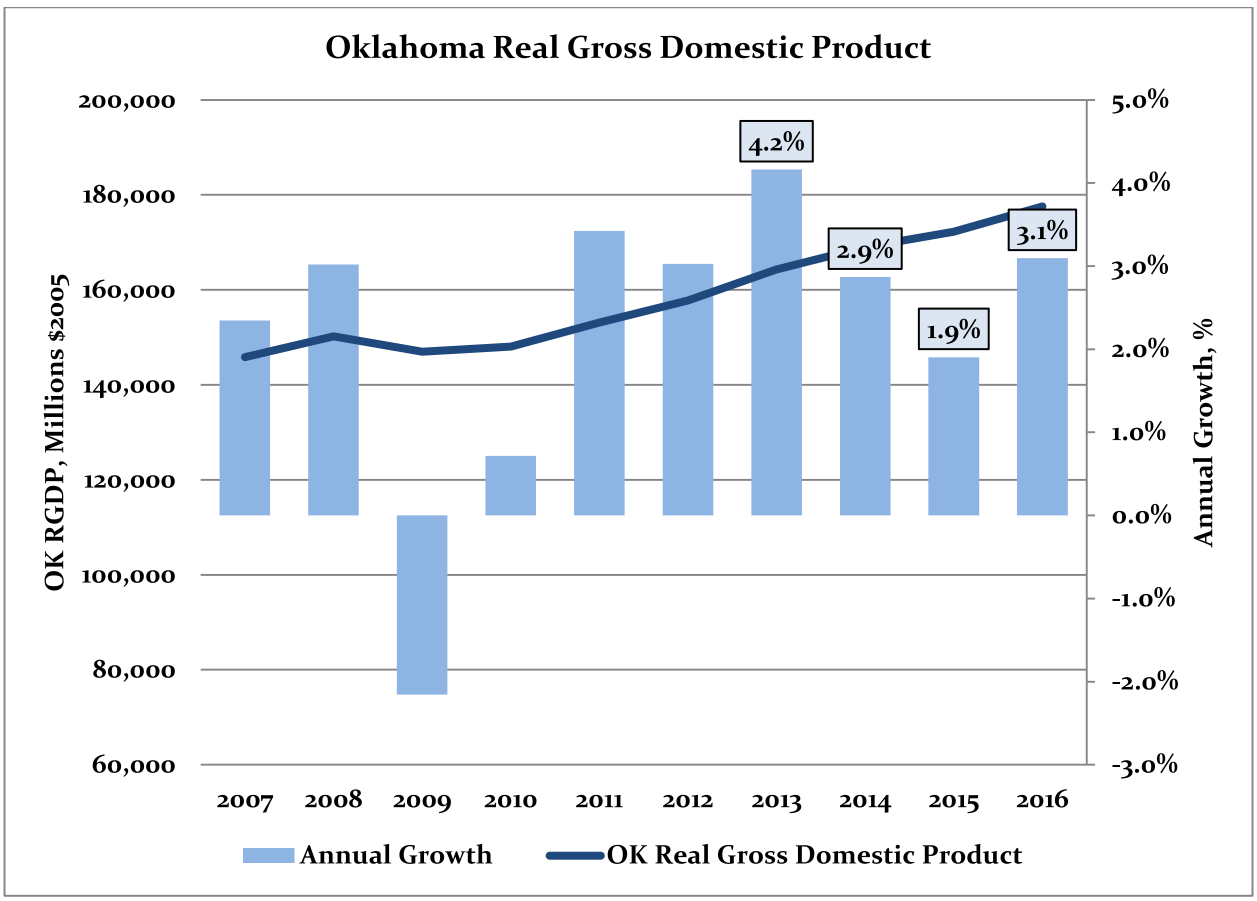
Oklahoma and Upward Mobility

Area	Probability of Top Quintile Given Bottom Quintile	Average Income Achievement Given Parents in 25th Percentile
Woodward	20.00%	53.30%
Elk City	18.70%	50.90%
Guymon	16.20%	50.40%
Enid	14.90%	50.00%
Ada	11.70%	45.50%
Chickasha	11.50%	45.40%
Altus	11.20%	45.60%
Ardmore	11.10%	46.20%
Lawton	10.50%	44.00%
Stillwater	9.80%	45.80%
Idabel	9.20%	43.30%
Oklahoma City	8.20%	42.20%
Okmulgee	8.10%	42.10%
Tulsa	7.80%	41.60%
U.S. National Average	7.50%	*NA*
Frederick	7.40%	45.60%
Muskogee	6.30%	41.00%

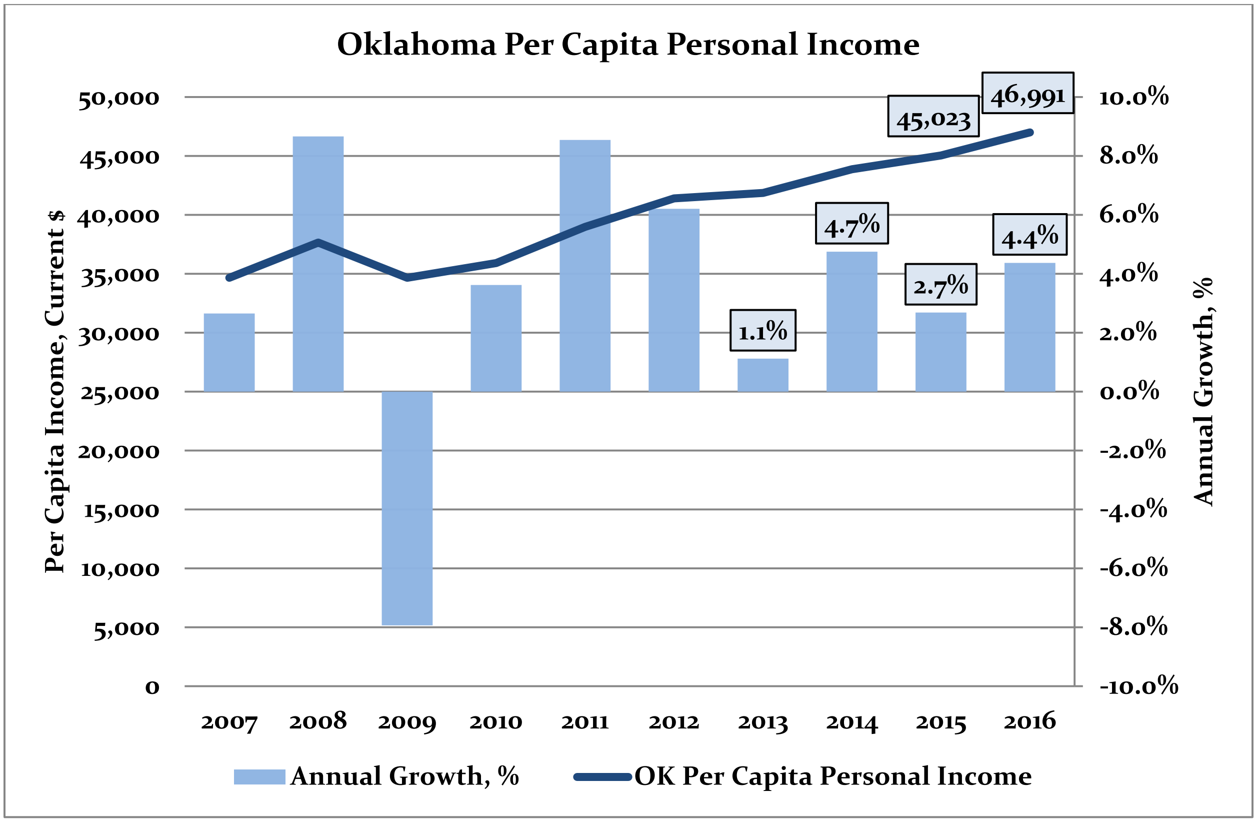
Source: equality-of-opportunity.org

Note that, at present, the unemployment rates for the areas just referenced are 2.5% (Elk City), 2.9% (Enid), 3.9% (Guymon), and 2.2% (Woodward). Economic opportunities in rural Oklahoma persist even as their share of the overall state performance diminishes.

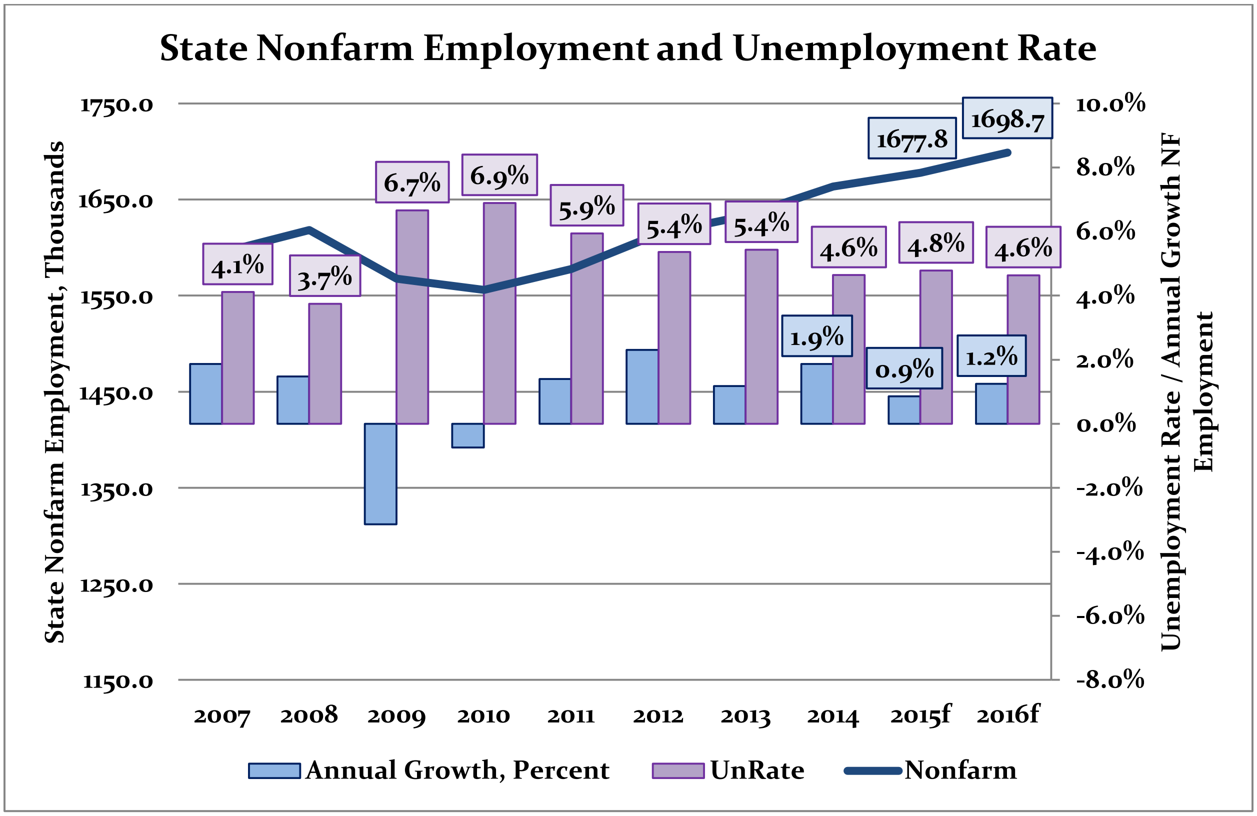
Measures of Oklahoma's gross domestic product are tied closely to the prices of oil and natural gas. Thus Oklahoma real gross domestic product increased by 4.2% in 2013 even as the pace of employment and earnings growth slowed considerably. While the pace of employment growth picked up in 2014, the downward trend in commodity prices is expected to offset this strength. Real gross domestic product is estimated to have expanded at a 2.9% pace in 2014, just slightly faster than the state's long-run average. Low prices through 2015 are expected to conspire with slower employment growth as they state moves through what is shaping up to be a challenging year. Our baseline forecast is for real gross domestic product to grow at 1.9% in 2015 before returning to long-term trend growth of 3.1% in 2016.



Oklahoma per capita personal income growth slowed in 2013 – a combination of slowing employment and earnings growth and a modest increase in population growth. Per capita personal income growth accelerated in 2014 and is preliminarily estimated at 4.7%. A challenging economic environment in 2015 is expected to see per capita personal income grow at 2.7% to $45,023 before expanding at a more robust 4.4% annual pace in 2016 to $46,991.



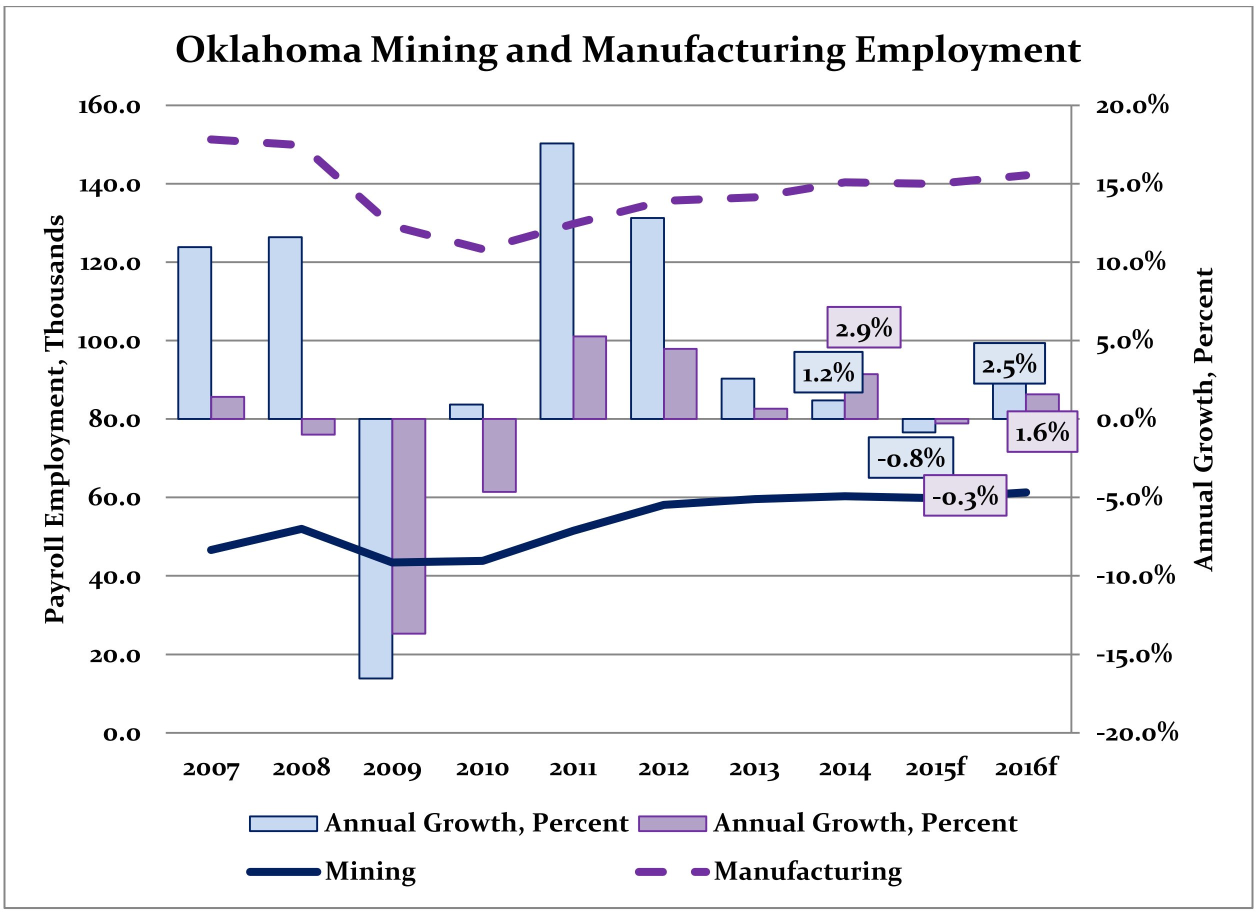
We expect falling energy prices and global uncertainties to offset some of Oklahoma's geographic strength and positive economic inertia from 2014. After growing at a rate of 1.9% in 2014, growth in state nonfarm employment is expected to moderate in 2015 with growth of 0.9% - just a touch below the state's long-run average. Growth is expected to pick up in 2016 as global conditions improve bringing increases in the demand for commodities and industrial production, both important components of Oklahoma's economy.



Oklahoma's unemployment rate averaged 4.6% for the year in 2014, down from 5.4% in 2013. We expect unemployment rates to be largely unchanged in 2015, with the state's average unemployment rate for the year rising to 4.8% before returning to 4.6% in 2016.

As discussed previously, two of the principal sectors leading the state's economic recovery are mining (oil and gas) and manufacturing. Oil and gas payroll employment grew at an annual rate of 17.6% and 12.8% in 2011 and 2012 respectively while manufacturing employment grew at rates of 5.3% and 4.5% over the same period. The pace of employment growth slowed considerably in 2013 and 2014 with mining posting gains of 2.6% and 1.2% and manufacturing 0.7% and 2.9%.

We do expect some short-run challenges to these industries as oil and natural gas prices remain low and their future price path unclear. Given the current expected price path of oil and global economic weakness, our baseline forecast looks for both of these key industries to contract modestly in 2015 with mining contracting at a rate of -0.8% in 2015 and manufacturing holding near current levels with a contraction of -0.3%. Both industries are projected to return to strength in 2016 growing at rates of 2.5% and 1.6% respectively.



The baseline projected path for Oklahoma in 2015 is really a tale of two trends: short-run concerns in the state's defining industry offset by long-run strength as people and economic activity continue to concentrate in the state's urban areas and specifically along the I-35 megalopolis. Industries closely tied to the state's oil and gas industry are expected to be challenged in 2015 while industries more closely aligned with population and income gains are expected to benefit from the underlying long-term trend growth.

State Employment Forecast			
Top Growth Sectors	**2015 Forecast**	**Bottom Growth Sectors**	**2015 Forecast**
Health Services	2.0%	Manufacturing	-0.3%
Retail Trade	1.8%	Scientific and Technical Services	-1.8%
Leisure & Hospitality	3.0%	Mining	-0.8%
Construction	2.3%	Information	-2.6%

Source: Steven C. Agee Economic Research and Policy Institute

The sectors forecasted to experience the greatest employment growth are health services, retail trade, leisure and hospitality, and construction (listed in order of their share of total state employment). These sectors will benefit from the ongoing trends of people and activity concentrating in the state looking for a more productive shared production or consumption experience. In contrast, the sectors (again listed in order of their total share of state employment) expected to struggle in 2015 are manufacturing, scientific and technical business services, mining, and information.

Oklahoma private sector average weekly earnings are expected to grow at a 1.9% rate in 2015 after growing at a rate of 2.1% in 2014. Average weekly earnings growth follows the mix of job gains, with job gains expected to be concentrated in 2015 in lower growth industries (retail trade, food services, etc.).

Oklahoma Private Sector Weekly Earnings		
Year	**Average Weekly Earnings**	**Annual Growth**
2008	618.41	2.0%
2009	633.91	2.5%
2010	682.81	7.7%
2011	720.39	5.5%
2012	739.86	2.7%
2013	742.35	0.3%
2014	757.95	2.1%
2015	772.12	1.9%
2016	787.28	2.0%

Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma City Economic Conditions and Outlook

Oklahoma City has experienced an economic recovery envied by many metropolitan areas across the U.S. The recovery is all the more impressive when considered the tenuous national and global economic conditions that have characterized the last four years. Oklahoma City's recovery was led by explosive growth in the oil and gas sector with employment growth of 18.9% and 15.3% in 2011 and 2012 respectively. Oil and gas growth was accompanied by related growth in manufacturing with employment growing at 6.1% and 6.7% in 2011 and 2012. Mining and manufacturing growth slowed in 2013 plateaued in 2014. Replacing mining and manufacturing as the metro area's lead growth sectors were construction and leisure services, growing at 12.2% and 8.8% respectively in 2014.

Oklahoma City Growth Trends: Major Employment Sectors

Year	2011	2012	2013	2014	10-Year Average	4-Year Average (Post Recession)	4-Year Average (2005-2008)	2015
Nonfarm	2.3%	2.4%	2.2%	3.0%	1.4%	***2.5%***	1.7%	1.7%
Private	3.0%	2.9%	2.2%	3.2%	1.4%	***2.8%***	1.7%	1.7%
Mining	18.9%	15.3%	2.6%	0.9%	8.9%	***9.4%***	15.2%	-2.0%
Leisure and Hospitality	4.2%	2.8%	4.7%	8.8%	2.8%	***5.1%***	1.7%	3.7%
Construction	2.8%	2.3%	2.6%	12.2%	2.8%	***5.0%***	4.2%	5.6%
Manufacturing	6.1%	6.7%	3.1%	-0.1%	-0.6%	***4.0%***	-1.3%	-0.8%
Trade, Transport, Utilities	2.9%	2.9%	3.7%	3.0%	1.3%	***3.1%***	1.0%	1.8%
Financial Activities	-0.6%	3.1%	1.8%	5.4%	0.2%	***2.4%***	-0.9%	2.5%
Education and Health Services	1.4%	2.4%	1.7%	2.8%	2.0%	***2.1%***	2.6%	2.7%
Professional Business Services	3.6%	1.2%	0.8%	-1.0%	1.2%	***1.2%***	3.1%	-0.3%
Government	-0.2%	0.7%	2.1%	1.9%	1.3%	***1.1%***	1.4%	1.6%
Other Services	0.0%	-1.3%	-3.1%	-1.1%	-0.8%	***-1.4%***	0.8%	-2.8%
Information	-6.3%	-4.4%	-5.8%	-2.3%	-5.2%	***-4.7%***	-2.6%	-2.5%

Oklahoma City's economic momentum is a combination of short-run explosive growth in oil and gas employment and long-run transitions in economic geography. Longer-run trends are consolidating economic activity in dense, amenity-rich urban environments. Oklahoma City's location within the I-35 megalopolis region and its proactive development of a central city amenity complex continue to drive population and economic activity to central Oklahoma. The combined result is a cycle of growth in core industries further encouraging a concentration of people and economic activity which in turn drives demand for consumer services.

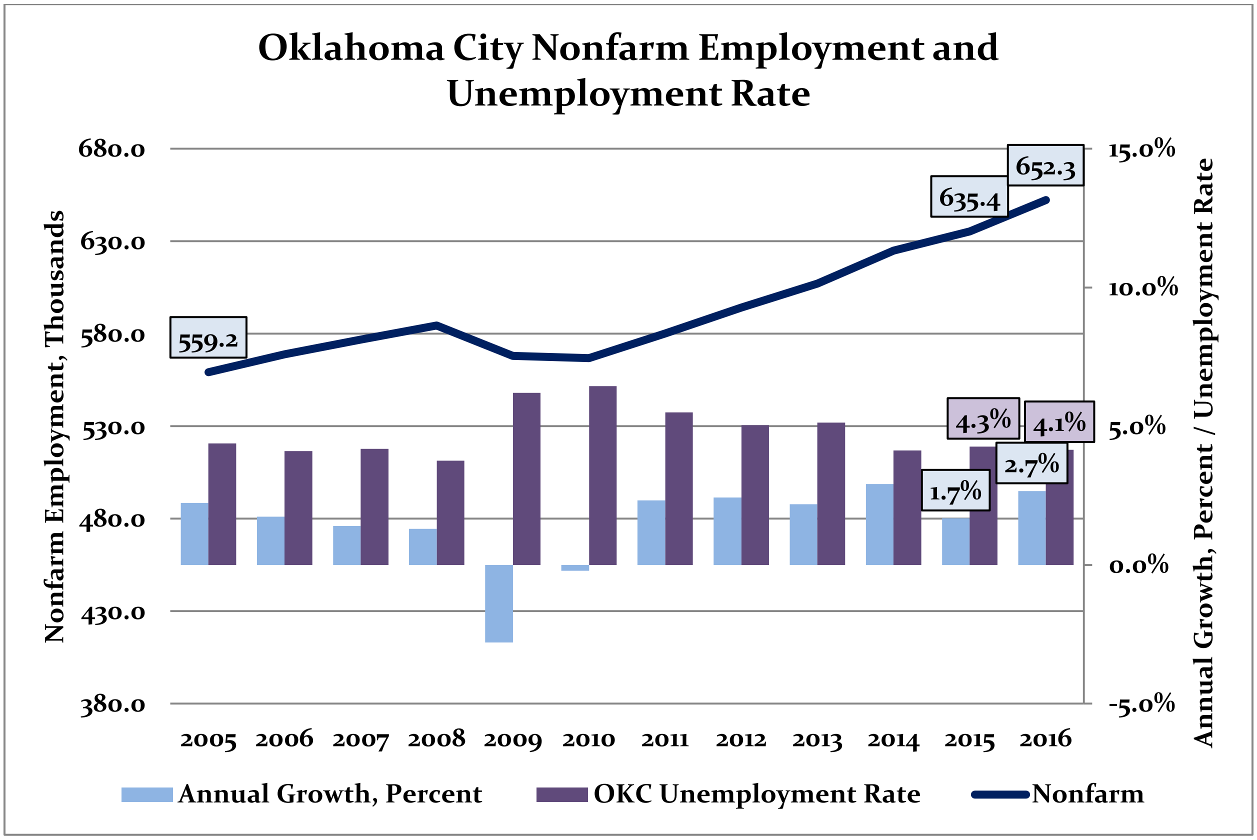
Oklahoma City private sector employment grew at 2.8% in 2014, nearly twice the pace of the city's 10-year average and a full 1.1 percentage points above the average pace set during the pre-recession expansion from 2004-2008. Oklahoma City's growth experience is trending towards the experience of major metro areas to the south on the I-35 corridor (Dallas, San Antonio, Austin, and Houston) and is increasingly dissimilar from the northern corridor cities (Tulsa and Kansas City).

I-35 Corridor Cities: Nonfarm Payroll Growth

City	1991-2011	2012	2013	2014
Austin	3.5%	3.4%	4.5%	3.7%
Houston	2.0%	3.2%	3.5%	3.6%
Dallas	1.9%	2.7%	2.6%	3.5%
Oklahoma City	***1.4%***	***2.3%***	***2.2%***	***2.9%***
San Antonio	2.2%	2.0%	2.8%	2.4%
Sherman-Dennison	0.6%	0.7%	2.3%	1.6%
Tulsa	1.1%	1.1%	1.5%	1.5%
Kansas City	1.2%	2.0%	1.0%	0.6%

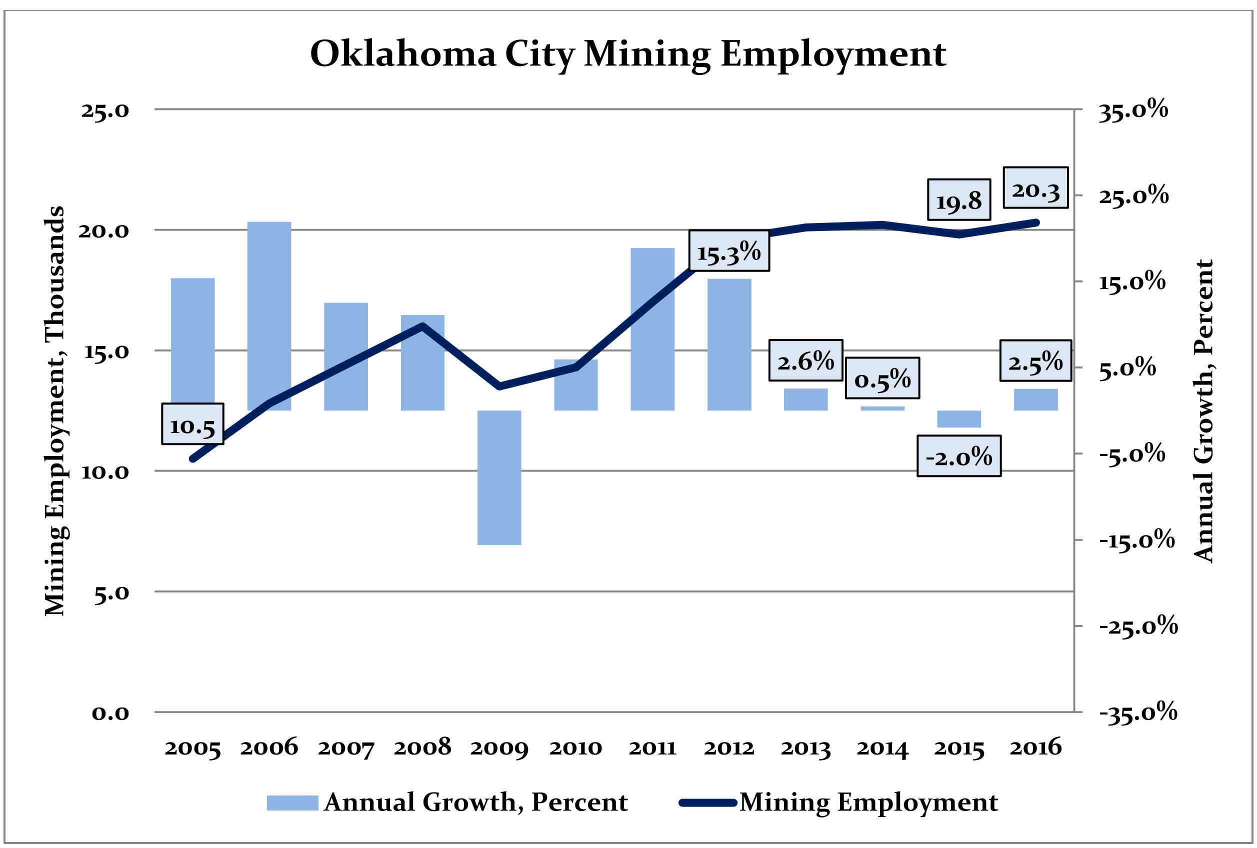
The outlook for 2015 is a contradiction of two forces: falling oil prices and price uncertainty straining the economy's core industry while long-run patterns of economic geography favor future growth.

Oklahoma City nonfarm employment is expected to slow in 2015 as a drag in the state's core oil and gas industry offsets strength in core household service industries. Nonfarm employment grew at a robust 2.9% in 2014 and has average 2.5% growth per year since Oklahoma emerged from the great recession. Nonfarm employment is expected to grow at roughly half its 2014 pace in 2015, posting a moderate expansion of 1.7% in 2015. Unemployment rates are expected to increase through the first half of the year and average 4.3% for the year before falling back to 4.1% in 2016.

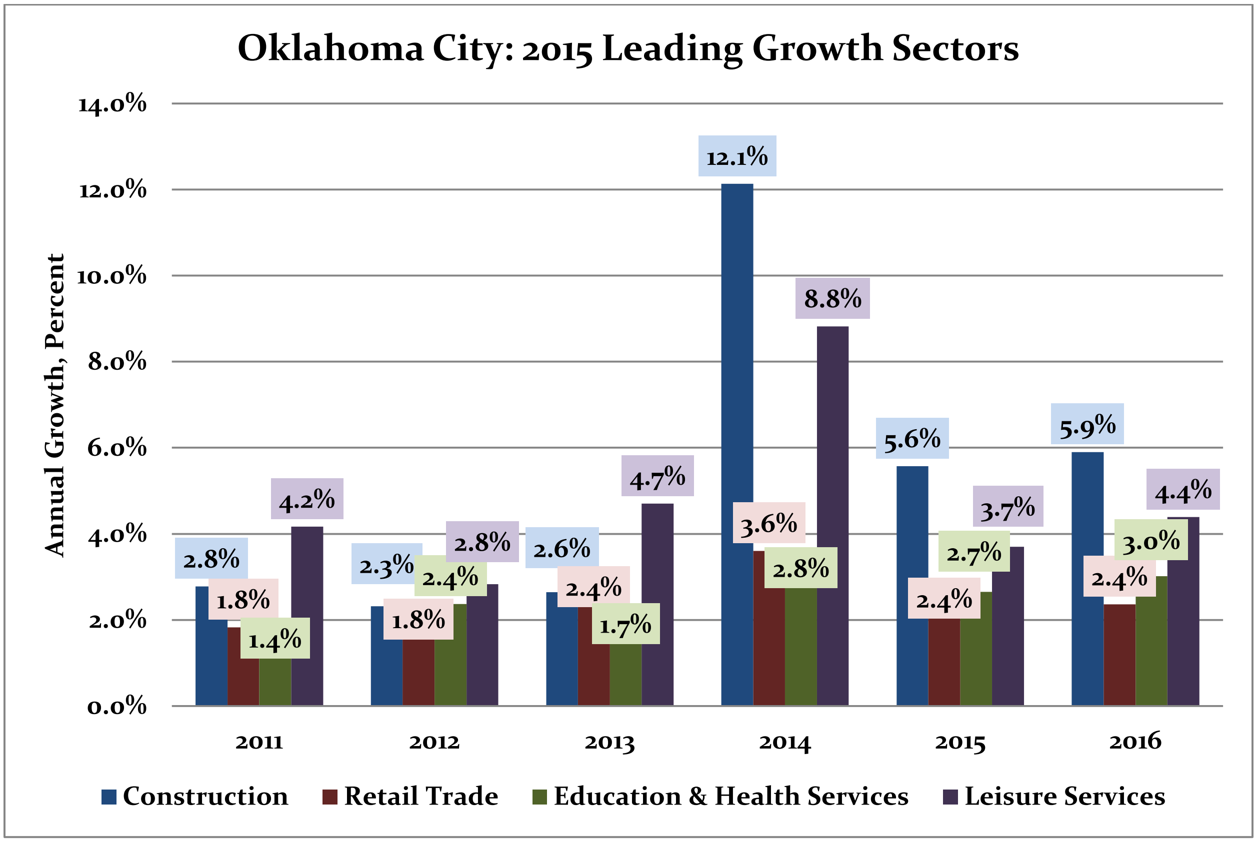


While the city's oil and gas industry accounts for only 3% of total employment, it exerts a considerably larger influence on the city's economic health. Growth in oil and gas employment spurred large gains in the average weekly earnings of Oklahoma City workers. Oil and gas employment grew at annual rates of 18.9% and 15.3% in 2011 and 2012 as industry employment in the city more than doubled in size in the last ten years. Average monthly payrolls are projected to decline by 2.0% in 2015 – a drop in average monthly payroll size of approximately 400 workers. Employment is expected to return to 2014 levels in 2016 as prices improve.

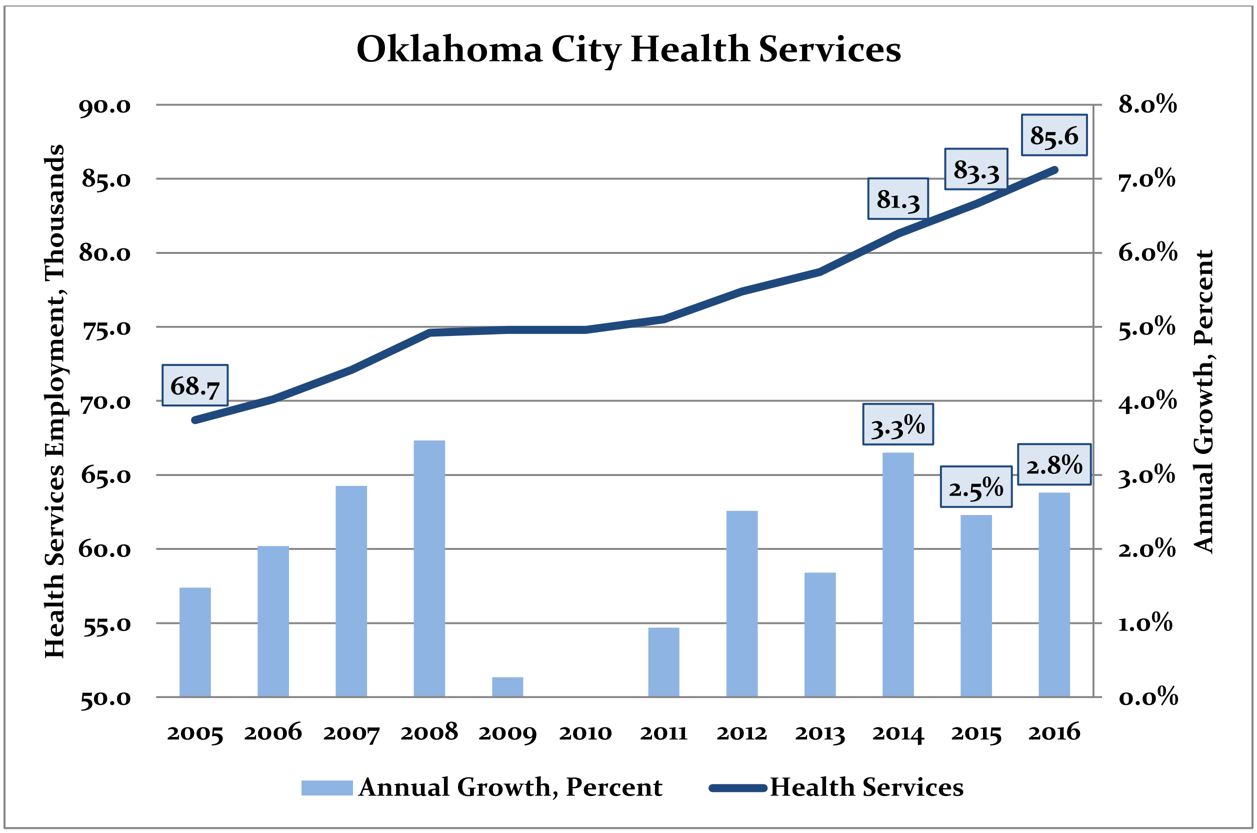
It is worth emphasizing again that current forecasts are dependent on the realization of current price expectations. The expected future path of crude oil prices are that prices move lower in the first half of 2015 before improving through the end of the year, with oil prices averaging $55 for the year. A significant improvement in the expected price path of oil could stave off the contraction while a prolonged price fall (and the industry adopting expectations that the future price path is considerably more pessimistic) would exaggerate the local economic impact in 2015.



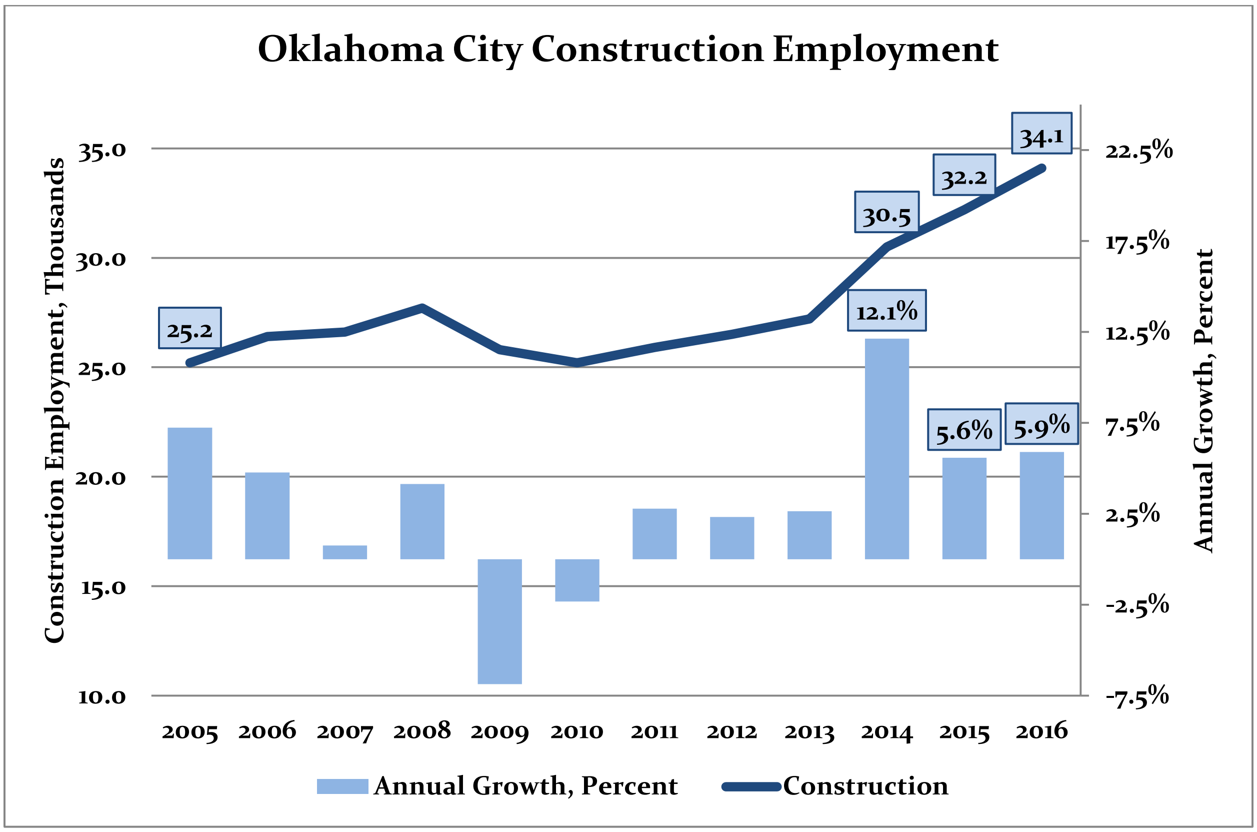
The demand for household consumption services including construction, retail trade, health, and leisure services surged in 2014, driving employment gains across these sectors of 12.1%, 3.6%, 2.8%, and 8.8% respectively. Strength in these industries is a reflection of local population and income gains – long-term trends that are expected to continue in contrast to short-run challenges posed by falling oil and natural gas prices. The positive inertia from these industries is expected to carry into 2015 with employment gains of 5.6% (construction), 3.6% (retail trade), 2.8% (education and health services), and 3.7% (leisure services).



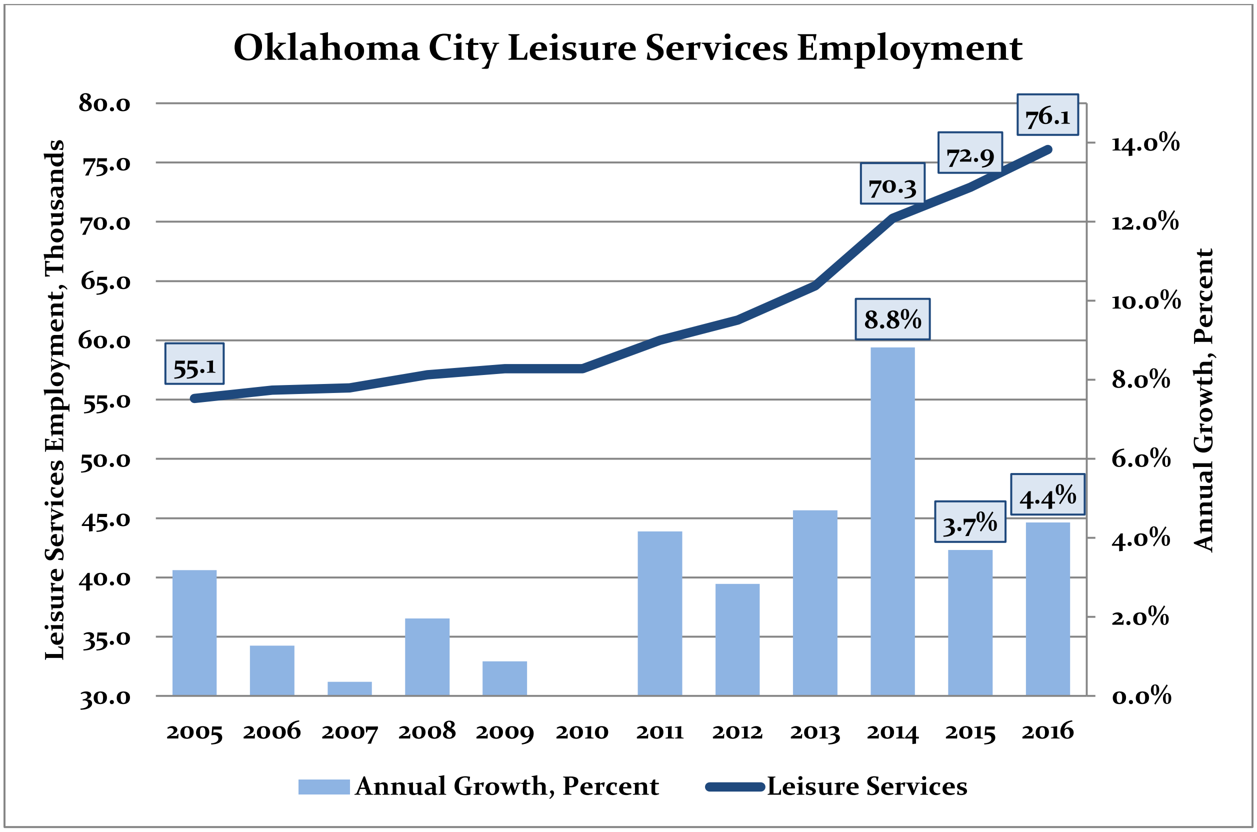
Oklahoma City sustained population growth through the recession and into recovery setting it apart as one of the nation's fastest growing cities. Oklahoma City population grew 7.13% from 2007-2011 as much of the nation struggled through recession. Population growth has carried into the recovery and is poised to continue as inertia and economic geography favor continuation of long-term trends in the city's economic development. Population gains and the impending aging of the baby boomers have led to significant growth in health services employment as providers position to meet current and expected future demand. Health services employment has grown from 68,700 in 2005 to 81,300 in 2014. Employment growth is expected to slow only modestly in 2015 and 2016 as employment in the industry is expected to reach 85,600 in 2016.



Concentrations of people, income, and economic activity in the metro area have spurred local demand for housing and commercial development. Construction employment surged in 2014, growing at an annual rate of 12.1% to an average monthly payroll size of 30,500. Development seems poised to carry into 2015 leading to employment gains in the industry of 5.6% in 2015 and 5.9% in 2016. Construction projects and retail trade development are particularly susceptible to further slides in oil and natural gas prices and changing expectations that prices could stay lower, longer. Our baseline case hinges on the realization of our expectation that oil prices fall modestly through the first quarter of the year before stabilizing and rising through year's end.



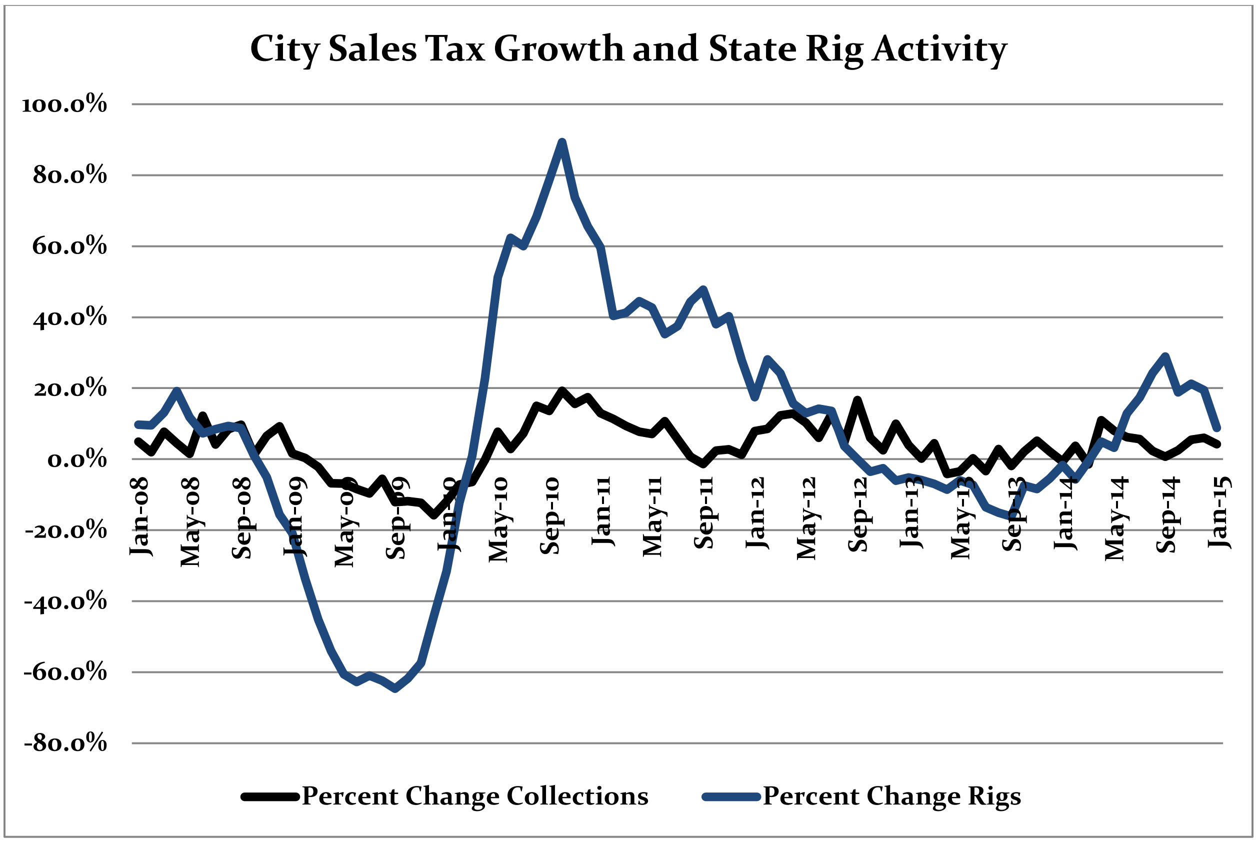
As with construction and health services, people and income concentrations in the Oklahoma City metro area have preceded and predicted growth in the demand for the arts, accommodations, and food services. Oklahoma City experienced strong gains on all fronts in 2014 from both national chains and local development. Oklahoma's food scene is gathering both regional and national attention as restaurants and nightlife contribute to the city's rapidly developing amenity package often cited as an attraction for the city's growing millennial population. Leisure services employment is poised to grow in 2015 at a 3.7% annual rate.



Oklahoma City Fiscal Conditions and Outlook

The economic and fiscal outlook is best described as conflicted. Short run challenges from falling oil prices are moving into the state's economy. The extent of the short run weakness will be determined by the future price path of oil and the speed with which economic activity rebounds in the state. Oklahoma City's fiscal outlook is bolstered somewhat by long term trends favoring concentrations of economic activity along the I-35 corridor. The fiscal outlook will be determined by the interplay of short run distress and long run development.

Previous experiences in city sales tax collections have revealed state rig counts as a potential proxy for economic activity and consumer behavior. Year-over-year percent changes in monthly active rig counts and monthly city sales tax collections are presented below for the January 2008 through January 2015 period.



The two series exhibit a simple correlation of 0.76 suggesting a significant linear correlation. More importantly, however, in 71% of observations the percent change in rig activity and the percent change in monthly collections move in the same direction. To the extent that previous experiences inform the present fiscal situation, two periods merit specific consideration.

The first period captures Oklahoma City's entry into the great recession. Rig counts in the state began to fall in November of 2008. A four-month lag preceded the drop in sales tax collections that materialized initially in March of 2009. Rig activity contracted for another 12 months through February 2010 and sales tax collections averaged a monthly change of -9.2%. This period is indicative of both short run and long run weakness. Short run contractions in the city's core industry accompanied national (and global) economic weakness and a difficult to contain financial crisis. The present period is much different as the national economy continues to expand and stands out among developed economies as the sole source of economic expansion.

Monthly Sales Tax Collections and Rig Activity

Date	Percent Change, Monthly Collections	Percent Change, Monthly Rig Activity
Nov-08	6.6%	-5.1%
Dec-08	9.3%	-15.7%
Jan-09	1.6%	-20.8%
Feb-09	0.4%	-33.7%
Mar-09	*-2.2%*	-45.1%
Apr-09	*-6.8%*	-54.0%
May-09	*-6.9%*	-60.6%
Jun-09	*-8.4%*	-62.8%
Jul-09	*-9.6%*	-61.0%
Aug-09	*-5.5%*	-62.4%
Sep-09	*-12.1%*	-64.6%
Oct-09	*-11.8%*	-61.7%
Nov-09	*-12.3%*	-57.4%
Dec-09	*-15.8%*	-44.3%
Jan-10	*-12.0%*	-31.6%
Feb-10	*-7.2%*	-12.3%

Collections Lag: 4 months
Average Monthly Change in Collections: -9.2%

In October 2012 rig activity began to contract in the state. There was a six-month lag before weakness showed in sales tax collections, arriving in April 2013. Declining rig activity continued for 12 months through March 2014. In this period, however, some modest economic strength in the city's economy offset the short run weakness as monthly sales tax collections averaged monthly growth of 0.1%. Monthly collections grew on a year-over-year basis in 6 of the 12 months.

The October 2012 through March 2014 period is likely more instructive in understanding the current outlook. The fiscal outlook will be determined by the interplay of long run regional and current national economic strength and short run challenges in the city's core industry. In contrast to the 2012-2014 period however, the current climate is characterized by both heightened economic strength broadly and core industry distress. The result is an uncertain forecasting environment.

Monthly Sales Tax Collections and Rig Activity

Date	Percent Change, Monthly Collections	Percent Change, Monthly Rig Activity
Oct-12	6.0%	-3.6%
Nov-12	2.5%	-2.6%
Dec-12	9.9%	-6.1%
Jan-13	3.9%	-5.1%
Feb-13	0.2%	-5.9%
Mar-13	4.5%	-7.0%
Apr-13	-4.1%	-8.5%
May-13	-3.4%	-6.0%
Jun-13	0.3%	-7.3%
Jul-13	-3.4%	-13.5%
Aug-13	2.9%	-15.1%
Sep-13	-1.9%	-16.2%
Oct-13	2.2%	-7.4%
Nov-13	5.2%	-8.4%
Dec-13	2.2%	-5.4%
Jan-14	-0.6%	-1.6%
Feb-14	3.8%	-5.7%
Mar-14	-1.4%	-0.5%

Collections Lag: 6 months
Average Monthly Change in Collections: 0.1%

Two baseline models are estimated and reported for fiscal year 2015-2016. The first offers a mixed view in which the short run and long run effects are given roughly equal weight. In this model, long run trends capturing Oklahoma City's positive economic geography factor strongly into model outcomes. The short run weakness is captured by our underlying forecast in private employment growth at roughly half the recent average rate, flat wage growth, and rig activity that falls through mid-year reaching a low of 138 in August before recovering to 177 in June 2016. This mixed-view model would be most appropriate if short run sales tax variation is strongly informed by long term strength and the expectation of continued favorable economic geography.

The second baseline model subdues the long run influences in the forecast allowing the future path of sales tax collections to be primarily informed by projected employment, wages, and rig activity. The short run model would be most appropriate if short run sales tax variation is strongly informed by current conditions that overwhelm longer run influences.

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

Source: Steven C. Agee Economic Research and Policy Institute

The mixed view model estimates fiscal year 2015 collections to grow at 2.99% with growth concentrated in the second and third quarters. Fiscal year 2016 collections grow at 2.15%, or slightly better than half the long run average rate of growth. If more voice is given to short run shocks, growth begins to slip in the fourth quarter of fiscal year 2015 resulting in year-end growth of 2.3% and holds mostly flat in fiscal year 2016 at 0.55%. Monthly details for each model are presented below.

Collections by Fiscal Year				
Monthly Detail	Annual Collections - Mixed View	Percent Change	Annual Collections - Short Run Dominates	Percent Change
Mar-15	$33,297,636	4.5%	$32,985,632	3.5%
Apr-15	$34,423,740	0.0%	$33,520,564	-2.6%
May-15	$35,670,577	0.5%	$35,031,171	-1.3%
Jun-15	$35,123,957	1.0%	$34,014,422	-2.2%
Jul-15	$36,026,977	1.8%	$35,080,072	-0.8%
Aug-15	$36,594,263	2.1%	$35,752,425	-0.2%
Sep-15	$36,811,365	3.4%	$35,887,775	0.8%
Oct-15	$37,354,870	1.7%	$36,628,063	-0.3%
Nov-15	$36,013,256	0.1%	$35,238,102	-2.1%
Dec-15	$35,791,538	-1.3%	$35,049,557	-3.3%
Jan-16	$37,487,446	3.1%	$36,837,678	1.3%
Feb-16	$38,311,556	1.9%	$37,602,628	-0.2%
Mar-16	$34,344,301	3.1%	$33,675,899	2.1%
Apr-16	$35,445,977	3.0%	$34,566,559	3.1%
May-16	$36,846,491	3.3%	$35,931,803	2.6%
Jun-16	$36,471,076	3.8%	$35,496,510	4.4%

Source: Steven C. Agee Economic Research and Policy Institute

In the mixed view model, monthly collections remain flat in the final quarter of FY 2015, averaging only 0.5% growth. Sales tax growth is subdued through first and second quarter, picks up modestly in the third quarter before showing strength in the final three months of the outlook period.

In the short run model, weakness moves into the city in the fourth quarter of 2015 as collections come in below last year's levels. General weakness persists through the first two quarters of FY 2016 before conditions stabilize in the third quarter and return to growth at the end of the outlook period.

Conclusion

While the state has seen its share of oil boom and bust cycles, the current climate is in some ways a first. The state has enjoyed an economic renaissance that parallels the energy renaissance enjoyed by the nation. It is certainly true that oil and gas activity have provided fuel to and accelerated Oklahoma City's economic success. But thoughtful economic development policies, favorable economic geography, and strength in other core industries have likewise contributed to recent success. The upcoming year will pit these forces in opposition to one another to determine the short run economic and fiscal outcomes in the state and city.

Our baseline models predict a year of slow growth locally in employment, income, and production. In general, we foresee a year in which economic growth occurs and roughly half the average pace set over the last four years. The baseline assumption of oil price and activity in the models call for WTI oil prices to average just under $55 in 2015 and just over $60 in 2016. In the near term, we expect oil price to trade down from current levels through the first part of 2015 before starting a slow and steady climb through 2016. Drilling activity subsides, falling on a year-over-year basis from March 2015 through April 2016, falling by as much as 35% from the September 2014 peak of 214. We anticipate significant employment effects in the oil and gas industry starting with contract workers and the self-employed and moving into payroll employment by the spring of 2016. The depth of the labor market disruption will be governed by expectations of future prices. Currently, expectations that prices will recover sufficiently in 2015 as to limit short run responses to significant reductions in capital expenditures and modest reductions in employment and operating expenses holding tenuously. A deterioration of expectations will be immediately reflected in the economic reality.

The U.S. remains the world's sole source of economic strength providing some relief to regional oil and gas weakness. Oil producing nations led by OPEC successfully talked the market lower through the end of 2014. The comments coming from OPEC have recently changed course, calling for a bottom in oil prices and a recovery early in 2015. They may find talking prices back up isn't as easy as talking prices down. If prices stay low through much of 2015, it is possible that OPEC would take actions to match their commentary in efforts to support prices. A sustained period of oil prices below $65 absent a global recession seems unlikely as these prices do not work well for producers in any nation. We remain confident that the current challenge represents a disruption of rather than an end to the current energy renaissance in the U.S.

Oklahoma City's fiscal outlook is complicated by the opposing forces at play in the local economy. If long run forces prevail, fiscal year 2016 growth is expected at 2.15%. If short run disruptions dominate consumer behavior, the baseline fiscal year 2016 forecast comes in at 0.55%. More so than any recent year, policymakers and business leaders would be well-advised to adapt expectations and behavior regularly and conditions change and the path forward reveals itself.

Appendix A: U.S. Outlook Table

U.S. Economic Outlook										
Key U.S. Economic Variables / Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	***2015***	***2016***
Real GDP - Annual Level	13,685.3	13,645.5	13,263.4	13,599.2	13,817.0	14,137.7	14,451.5	14,835.1	15,208.6	15,675.9
Real GDP - Annual Growth	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2	2.7	2.5	3.1
Major components of real GDP:										
Personal Consumption Expenditures, Annual Growth	1.4	-2.0	-0.2	3.1	1.5	2.0	2.8	2.0	3.3	2.7
Nonresidential Fixed Investment, Annual Growth	7.1	-8.9	-12.2	8.1	9.0	3.7	4.7	5.1	5.0	4.5
Residential Investment, Annual Growth	-21.3	-24.3	-10.8	-5.2	6.0	15.8	6.9	2.3	14.6	17.1
Inventory Change (Billions $ 2005)	32.8	-31.0	-135.9	53.6	34.6	52.6	58.5	58.8	45.9	26.9
Government Consumption, Annual Growth	1.8	3.3	2.3	-1.1	-3.0	-1.7	-1.9	0.8	0.1	0.5
Employment and Industrial Activity										
Private Housing Starts (SAAR, Thousands of Units)	1342	900	554	586	612	784	930	993	1212	1514
Light Vehicle Sales (Millions of Units)	16.1	13.2	10.4	11.6	12.7	14.4	15.5	16.4	16.9	17.0
Manufacturing Capacity Utilization Rates	78.7	74.6	65.6	71.1	73.9	75.6	76.1	77.0	77.5	77.6
NF Payroll Employment (Monthly Average, Millions)	137.9	137.2	131.2	130.3	131.8	134.1	136.4	138.9	141.4	143.7
Unemployment Rate (Monthly Average)	4.6	5.8	9.3	9.6	8.9	8.1	7.4	6.1	5.3	5.1
Prices, Productivity, and Costs										
Consumer Price Index (All Items)	4.0	1.6	1.5	1.2	3.3	1.9	1.2	1.2	1.1	2.1
Core Consumer Price Index (Ex. Food & Energy)	2.3	2.0	1.8	0.1	2.2	1.9	1.7	1.8	1.9	2.1
Compensation per Hour, YOY Growth	3.9	3.0	1.2	1.4	0.6	5.5	-0.1	3.0	2.8	3.5
Output per Hour (YOY Growth)	2.3	-0.4	5.5	1.8	0.1	0.4	2.0	-0.2	1.9	1.9
Price of WTI Crude (Monthly Average $/Barrel)	72.36	99.57	61.69	79.43	95.08	94.20	97.94	93.26	53.55	60.51
Price of Brent Crude (Monthly Average $/Barrel)	72.51	97.17	61.55	79.49	111.32	111.74	108.69	99.04	58.04	66.16
Income, Interest Rates, and the Deficit										
Federal Funds Rate	5.02	1.93	0.16	0.17	0.10	0.14	0.11	0.09	0.29	1.77
10-Year Treasury Yield	4.63	3.67	3.26	3.21	2.79	1.80	2.35	2.54	2.57	3.53
Real Disposable Personal Income	1.2	1.1	-0.7	2.6	1.7	5.0	-1.9	3.5	2.8	3.0
U.S. Personal Savings Rate	3.0	4.9	6.1	5.6	6.0	7.2	4.9	5.4	5.6	5.4
Unified Federal Budget Surplus, Fiscal Year	-161.5	-454.8	-1415.7	-1,294.2	-1,296.8	-1,089.2	-680.2	-483.4	-483.2	-522.6

Source: Steven C. Agee Economic Research and Policy Institute; Macroadvisers MAUS 2012 Model

Appendix B: Statewide Employment and Earnings History and Forecast

Oklahoma Statewide Employment and Earnings												
Variable/Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015f**	**2016f**
Nonfarm	1525.2	1565.7	1594.9	1618.4	1567.6	1556.0	1577.7	1614.1	1633.1	1663.6	1677.8	1698.7
Annual Growth, Percent	2.6%	2.7%	1.9%	1.5%	-3.1%	-0.7%	1.4%	2.3%	1.2%	1.9%	0.9%	1.2%
Private	1204.3	1236.1	1261.0	1281.2	1219.3	1207.5	1233.8	1266.9	1284.8	1315.9	1328.7	1347.9
Annual Growth, Percent	2.3%	2.6%	2.0%	1.6%	-4.8%	-1.0%	2.2%	2.7%	1.4%	2.4%	1.0%	1.4%
Mining	36.0	42.0	46.6	52.0	43.4	43.8	51.5	58.1	59.6	60.3	59.8	61.3
Annual Growth, Percent	10.8%	16.7%	11.0%	11.6%	-16.5%	0.9%	17.6%	12.8%	2.6%	1.2%	-0.8%	2.5%
Construction	66.1	70.3	71.3	75.6	68.9	67.0	68.3	70.4	74.5	77.3	79.1	81.7
Annual Growth, Percent	5.3%	6.4%	1.4%	6.0%	-8.9%	-2.8%	1.9%	3.1%	5.8%	3.7%	2.3%	3.3%
Manufacturing	144.8	149.2	151.3	149.8	129.3	123.3	129.8	135.6	136.5	140.4	140	142.2
Annual Growth, Percent	1.8%	3.0%	1.4%	-1.0%	-13.7%	-4.6%	5.3%	4.5%	0.7%	2.9%	-0.3%	1.6%
Trade, Transport, & Utilities	279.3	283.6	287.5	289.3	281.3	277.3	282.7	290.4	294.4	301.0	305.4	308.4
Annual Growth, Percent	1.6%	1.5%	1.4%	0.6%	-2.8%	-1.4%	1.9%	2.7%	1.4%	2.2%	1.5%	1.0%
Wholesale	56.5	58.4	59.4	59.3	56.2	55.6	57.9	60.3	61.9	63.7	64.1	64.8
Annual Growth, Percent	3.1%	3.4%	1.7%	-0.2%	-5.2%	-1.1%	4.1%	4.1%	2.7%	2.8%	0.7%	1.1%
Retail	169.8	170.1	171.2	173.0	169.9	168.6	170.5	173.2	174.4	179.5	182.8	185.2
Annual Growth, Percent	1.0%	0.2%	0.6%	1.1%	-1.8%	-0.8%	1.1%	1.6%	0.7%	2.9%	1.8%	1.3%
Transportation & Utilities	53.0	55.2	56.9	57.1	55.3	53.0	54.3	57.0	58.2	57.8	58.5	58.4
Annual Growth, Percent	2.1%	4.2%	3.1%	0.4%	-3.2%	-4.2%	2.5%	5.0%	2.1%	-0.8%	1.3%	-0.2%
Information	30.2	29.8	28.8	28.7	26.8	24.3	23.0	22.5	21.8	21.1	20.5	20.7
Annual Growth, Percent	-2.6%	-1.3%	-3.4%	-0.3%	-6.6%	-9.3%	-5.3%	-2.2%	-3.1%	-3.4%	-2.6%	1.0%
Financial Activities	83.1	83.4	82.9	83.2	81.5	79.9	79.4	80.0	80.8	83.2	84.4	85.8
Annual Growth, Percent	-1.0%	0.4%	-0.6%	0.4%	-2.0%	-2.0%	-0.6%	0.8%	1.0%	3.0%	1.4%	1.7%
Professional Business	170.4	175.8	181.6	183.4	167.9	170.7	174.3	177.9	180.0	181.6	180.6	182.6
Annual Growth, Percent	4.7%	3.2%	3.3%	1.0%	-8.5%	1.7%	2.1%	2.1%	1.2%	0.9%	-0.5%	1.1%
Scientific & Technical	59.2	61.2	63.4	64.9	62.9	63.5	64.3	65.9	66.6	64.7	63.5	64.1
Annual Growth, Percent	2.8%	3.4%	3.6%	2.4%	-3.1%	1.0%	1.3%	2.5%	1.1%	-2.9%	-1.8%	0.9%
Management	12.5	12.7	13.4	14.4	14.5	14.6	15.2	16.2	16.8	16.9	16.9	17.1
Annual Growth, Percent	-0.8%	1.6%	5.5%	7.5%	0.7%	0.7%	4.1%	6.6%	3.7%	0.3%	0.3%	1.1%
Administrative Support	98.8	101.8	104.8	104.1	90.5	92.6	94.7	95.9	96.7	100.0	100.2	101.4
Annual Growth, Percent	6.8%	3.0%	2.9%	-0.7%	-13.1%	2.3%	2.3%	1.3%	0.8%	3.5%	0.1%	1.2%

Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma Statewide Employment and Earnings, continued

Variable/Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015f	2016f
Education / Health	200.8	204.8	210.1	214.8	218.6	221.7	223.1	226.2	227.2	232.4	236.9	241.1
Annual Growth, Percent	2.2%	2.0%	2.6%	2.2%	1.8%	1.4%	0.6%	1.4%	0.4%	2.3%	1.9%	1.8%
Education	16.8	16.9	17.0	17.4	18.1	18.4	19.0	19.2	19.2	19.0	19.3	19.6
Annual Growth, Percent	6.3%	0.6%	0.6%	2.4%	4.0%	1.7%	3.3%	1.1%	0.0%	-0.9%	1.5%	1.6%
Health	184.0	187.9	193.1	197.3	200.4	203.3	204.1	207.0	208.0	213.4	217.6	221.5
Annual Growth, Percent	1.9%	2.1%	2.8%	2.2%	1.6%	1.4%	0.4%	1.4%	0.5%	2.6%	2.0%	1.8%
Leisure & Hospitality	132.4	135.6	137.8	141.0	140.0	139.0	142.9	147.2	151.9	159.3	164.1	168.0
Annual Growth, Percent	2.6%	2.4%	1.6%	2.3%	-0.7%	-0.7%	2.8%	3.0%	3.2%	4.9%	3.0%	2.4%
Arts	13.9	14.2	14.6	15.6	14.4	14.3	14.1	14.3	14.7	15.5	15.9	16.1
Annual Growth, Percent	2.2%	2.2%	2.8%	6.8%	-7.7%	-0.7%	-1.4%	1.4%	2.8%	5.8%	2.3%	1.0%
Food & Accommodation	118.5	121.4	123.2	125.4	125.6	124.7	128.8	132.9	137.2	143.7	148.2	151.9
Annual Growth, Percent	2.6%	2.4%	1.5%	1.8%	0.2%	-0.7%	3.3%	3.2%	3.2%	4.8%	3.1%	2.5%
Other	61.1	61.7	63.1	63.5	61.6	60.6	58.8	58.6	58.2	59.4	60.1	61.0
Annual Growth, Percent	0.2%	1.0%	2.3%	0.6%	-3.0%	-1.6%	-3.0%	-0.3%	-0.7%	2.0%	1.3%	1.4%
Government	320.9	329.6	333.9	337.3	348.3	348.5	343.9	347.1	348.3	347.7	349.2	354.9
Annual Growth, Percent	3.4%	2.7%	1.3%	1.0%	3.3%	0.1%	-1.3%	0.9%	0.3%	-0.2%	0.5%	1.6%
Federal	45.9	45.8	45.3	45.2	46.6	50.4	49.1	48.4	47.2	46.7	46.6	47.0
Annual Growth, Percent	-0.4%	-0.2%	-1.1%	-0.2%	3.1%	8.2%	-2.6%	-1.4%	-2.5%	-1.1%	-0.3%	0.9%
State	82.4	83.4	83.7	84.1	85.1	83.8	84.8	86.4	86.3	85.5	85.4	85.9
Annual Growth, Percent	1.6%	1.2%	0.4%	0.5%	1.2%	-1.5%	1.2%	1.9%	-0.1%	-0.9%	-0.2%	0.6%
Local	192.7	200.5	204.8	207.9	216.7	214.3	209.9	212.4	214.8	215.4	217.3	222.0
Annual Growth, Percent	5.2%	4.0%	2.1%	1.5%	4.2%	-1.1%	-2.1%	1.2%	1.1%	0.3%	0.9%	2.2%
State Labor Force and Unemployment Rate	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015f**	**2016f**
Unemployed	76,851	71,101	71,305	65,188	117,615	122,378	105,620	96,230	98,623	83,583	85,983	84,629
Annual Growth, Percent	-8.6%	-7.5%	0.3%	-8.6%	80.4%	4.0%	-13.7%	-8.9%	2.5%	-15.2%	2.9%	-1.6%
Employed	1,628,655	1,650,070	1,663,632	1,675,965	1,646,939	1,653,020	1,671,412	1,697,618	1,718,171	1,717,947	1,712,109	1,740,081
Annual Growth, Percent	1.4%	1.3%	0.8%	0.7%	-1.7%	0.4%	1.1%	1.6%	1.2%	0.0%	-0.3%	1.6%
Labor Force	1,705,506	1,721,171	1,734,937	1,741,153	1,764,554	1,775,398	1,777,032	1,793,848	1,816,794	1,801,530	1,798,092	1,824,710
Annual Growth, Percent	0.9%	0.9%	0.8%	0.4%	1.3%	0.6%	0.1%	0.9%	1.3%	-0.8%	-0.2%	1.5%
Un. Rate	4.5%	4.1%	4.1%	3.7%	6.7%	6.9%	5.9%	5.4%	5.4%	4.6%	4.8%	4.6%
OK Weekly Earnings			606.55	618.41	633.91	682.81	720.39	739.86	742.35	757.95	772.12	787.28
Annual Growth, Percent				2.0%	2.5%	7.7%	5.5%	2.7%	0.3%	2.1%	1.9%	2.0%

Source: Steven C. Agee Economic Research and Policy Institute

Appendix C: Oklahoma City Employment and Earnings History and Forecast

Oklahoma City Metro Area Employment Outlook												
Variable / Year	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Nonfarm	559.2	568.9	576.9	584.4	568.1	566.9	580.1	594.2	607.2	624.9	635.4	652.3
Annual Growth, Percent	2.2%	1.7%	1.4%	1.3%	-2.8%	-0.2%	2.3%	2.4%	2.2%	2.9%	1.7%	2.7%
Private	445.1	453.2	459.2	465.9	447.4	444.9	458.4	471.7	482.1	497.4	505.8	521.1
Annual Growth, Percent	2.4%	1.8%	1.3%	1.5%	-4.0%	-0.6%	3.0%	2.9%	2.2%	3.2%	1.7%	3.0%
Mining	10.5	12.8	14.4	16.0	13.5	14.3	17.0	19.6	20.1	20.2	19.8	20.3
Annual Growth, Percent	15.4%	21.9%	12.5%	11.1%	-15.6%	5.9%	18.9%	15.3%	2.6%	0.5%	-2.0%	2.5%
Construction	25.2	26.4	26.6	27.7	25.8	25.2	25.9	26.5	27.2	30.5	32.2	34.1
Annual Growth, Percent	7.2%	4.8%	0.8%	4.1%	-6.9%	-2.3%	2.8%	2.3%	2.6%	12.1%	5.6%	5.9%
Manufacturing	38.6	38.3	37.0	37.0	32.5	31.0	32.9	35.1	36.2	36.2	35.9	36.3
Annual Growth, Percent	-1.0%	-0.8%	-3.4%	0.0%	-12.2%	-4.6%	6.1%	6.7%	3.1%	0.0%	-0.8%	1.1%
Trade, Transport & Utility	99.0	100.3	101.2	100.7	97.5	97.2	100.0	102.9	106.7	109.9	111.9	115
Annual Growth, Percent	2.3%	1.3%	0.9%	-0.5%	-3.2%	-0.3%	2.9%	2.9%	3.7%	3.0%	1.8%	2.8%
Wholesale Trade	21.7	22.7	22.9	23.0	21.9	22.1	23.4	24.9	26.6	27.3	27.9	29.1
Annual Growth, Percent	3.3%	4.6%	0.9%	0.4%	-4.8%	0.9%	5.9%	6.4%	6.8%	2.6%	2.2%	4.3%
Retail Trade	61.4	61.5	62.0	62.3	60.2	60.1	61.2	62.3	63.8	66.1	67.7	69.3
Annual Growth, Percent	1.7%	0.2%	0.8%	0.5%	-3.4%	-0.2%	1.8%	1.8%	2.4%	3.6%	2.4%	2.4%
Transportation & Utilities	15.9	16.0	16.3	15.5	15.4	15.0	15.4	15.6	16.3	16.5	16.6	16.9
Annual Growth, Percent	3.2%	0.6%	1.9%	-4.9%	-0.6%	-2.6%	2.7%	1.3%	4.5%	1.2%	0.6%	1.8%
Information	13.4	13.2	12.3	12.2	11.1	9.6	9.0	8.6	8.1	7.9	7.7	7.6
Annual Growth, Percent	-1.5%	-1.5%	-6.8%	-0.8%	-9.0%	-13.5%	-6.3%	-4.4%	-5.8%	-2.5%	-2.5%	-1.3%
Financial Activities	34.5	34.5	34.4	34.2	33.2	32.8	32.6	33.6	34.2	36.0	36.9	38.6
Annual Growth, Percent	-2.5%	0.0%	-0.3%	-0.6%	-2.9%	-1.2%	-0.6%	3.1%	1.8%	5.3%	2.5%	4.6%
Professional & Business Services	70.0	72.2	74.8	75.1	69.9	71.4	74.0	74.9	75.5	74.6	74.4	76.0
Annual Growth, Percent	5.3%	3.1%	3.6%	0.4%	-6.9%	2.1%	3.6%	1.2%	0.8%	-1.2%	-0.3%	2.2%
Scientific & Technical Services	25.4	26.7	27.4	28.2	27.6	28.3	29.2	30.0	29.7	28.9	28.5	28.9
Annual Growth, Percent	2.4%	5.1%	2.6%	2.9%	-2.1%	2.5%	3.2%	2.7%	-1.0%	-2.7%	-1.4%	1.4%
Management of Companies	4.8	5.1	5.9	6.1	5.5	5.5	6.0	6.9	7.1	7.2	7.4	7.5
Annual Growth, Percent	0.0%	6.3%	15.7%	3.4%	-9.8%	0.0%	9.1%	15.0%	2.9%	1.4%	2.8%	1.4%
Administrative & Support Services	39.8	40.5	41.6	40.8	36.8	37.6	38.9	38.0	38.7	38.5	38.5	39.6
Annual Growth, Percent	7.6%	1.8%	2.7%	-1.9%	-9.8%	2.2%	3.5%	-2.3%	1.8%	-0.5%	0.0%	2.9%

Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma City Metro Area Employment Outlook, continued

Variable / Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Education & Health Services	75.7	76.8	79.3	82.2	82.9	83.2	84.4	86.4	87.9	90.4	92.8	95.6
Annual Growth, Percent	1.9%	1.5%	3.3%	3.7%	0.9%	0.4%	1.4%	2.4%	1.7%	2.8%	2.7%	3.0%
Health Services	68.7	70.1	72.1	74.6	74.8	74.8	75.5	77.4	78.7	81.3	83.3	85.6
Annual Growth, Percent	1.5%	2.0%	2.9%	3.5%	0.3%	0.0%	0.9%	2.5%	1.7%	3.3%	2.5%	2.8%
Leisure Services	55.1	55.8	56.0	57.1	57.6	57.6	60.0	61.7	64.6	70.3	72.9	76.1
Annual Growth, Percent	3.2%	1.3%	0.4%	2.0%	0.9%	0.0%	4.2%	2.8%	4.7%	8.8%	3.7%	4.4%
Other Services	23.2	23.0	23.2	23.9	23.3	22.7	22.7	22.4	21.7	21.5	20.9	21.0
Annual Growth, Percent	0.0%	-0.9%	0.9%	3.0%	-2.5%	-2.6%	0.0%	-1.3%	-3.1%	-0.9%	-2.8%	0.5%
Government	114.1	115.7	117.7	118.5	120.8	122.0	121.7	122.5	125.1	127.5	129.6	131.2
Annual Growth, Percent	1.7%	1.4%	1.7%	0.7%	1.9%	1.0%	-0.2%	0.7%	2.1%	1.9%	1.6%	1.2%
Federal	26.6	26.4	26.3	25.7	26.2	28.1	28.4	28.2	27.6	27.2	27.0	27.0
Annual Growth, Percent	-1.1%	-0.8%	-0.4%	-2.3%	1.9%	7.3%	1.1%	-0.7%	-2.1%	-1.4%	-0.7%	0.0%
State	39.8	40.3	41.6	41.6	42.0	41.7	42.1	42.4	43.5	44.2	44.8	45.4
Annual Growth, Percent	1.8%	1.3%	3.2%	0.0%	1.0%	-0.7%	1.0%	0.7%	2.6%	1.6%	1.4%	1.3%
Local	47.8	48.9	49.8	51.2	52.6	52.2	51.3	51.9	54.0	56.2	57.8	58.8
Annual Growth, Percent	3.5%	2.3%	1.8%	2.8%	2.7%	-0.8%	-1.7%	1.2%	4.0%	4.1%	2.8%	1.7%
Metro Labor Force and Unemployment Rate												
OKC Unemployed	25,165	23,379	23,581	21,147	35,354	37,178	32,060	29,744	31,026	25,236	26,238	25,674
Annual Growth, Percent	-3.4%	-7.1%	0.9%	-10.3%	67.2%	5.2%	-13.8%	-7.2%	4.3%	-18.7%	4.0%	-2.1%
OKC Employed	549,445	546,542	539,827	541,973	534,343	539,137	550,636	561,109	574,161	585,332	588,386	593,411
Annual Growth, Percent	1.2%	-0.5%	-1.2%	0.4%	-1.4%	0.9%	2.1%	1.9%	2.3%	1.9%	0.5%	0.9%
OKC Labor Force	574,610	569,921	563,408	563,120	569,697	576,315	582,696	590,853	605,187	610,568	614,974	619,228
Annual Growth, Percent	1.0%	-0.8%	-1.1%	-0.1%	1.2%	1.2%	1.1%	1.4%	2.4%	0.9%	0.7%	0.7%
OKC Unemployment Rate	4.4%	4.1%	4.2%	3.8%	6.2%	6.5%	5.5%	5.0%	5.1%	4.1%	4.3%	4.1%

Source: Steven C. Agee Economic Research and Policy Institute

Oklahoma City Population, Earnings, and Income

Variable / Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personal Income (thousands)	44,151,930	45,185,011	49,654,841	46,079,250	48,127,829	53,192,511	56,881,871	58,435,470	60,747,701	62,238,322	64,436,545
Annual Growth, Percent	11.1%	2.3%	9.9%	-7.2%	4.4%	10.5%	6.9%	2.7%	4.0%	2.5%	3.5%
Population	1,182,668	1,199,665	1,216,645	1,237,780	1,257,883	1,276,416	1,297,397	1,319,677	1,341,815	1,364,546	1,391,220
Annual Growth, Percent	1.8%	1.4%	1.4%	1.7%	1.6%	1.5%	1.6%	1.7%	1.7%	1.7%	2.0%
Per Capita Personal Income	37,332	37,665	40,813	37,227	38,261	41,673	43,843	44,280	44,899	45,611	46,317
Annual Growth, Percent	9.1%	0.9%	8.4%	-8.8%	2.8%	8.9%	5.2%	1.0%	1.4%	1.6%	1.5%
Annual Weekly Earnings, Private Sector		$665.87	$651.01	$636.27	$684.47	$705.68	$778.97	$768.85	$761.54	$765.50	$779.25
Annual Growth, Percent			-2.2%	-2.3%	7.6%	3.1%	10.4%	-1.3%	-1.0%	0.5%	1.8%

Source: Steven C. Agee Economic Research and Policy Institute

THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY16-20


FTMS is a management tool
that combines government's budgetary and financial reports
with economic and demographic data to create
a series of financial indicators.

SECTION 4
FINANCIAL TREND MONITORING

Introduction

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

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

What is Financial Condition?

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

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

The intention of the indicators and analysis that follow, when considered collectively as a group, is to provide the City's leadership and citizens with a better overall picture of how Oklahoma City is performing in each of these various areas of financial condition defined above. Knowing the overall financial condition and what factors are changing, whether improving or declining, is of benefit as we develop strategies to address our current situation and plan for the future.

Environmental Indicators. Active drilling wells, such as the one pictured at left, provide insight into one of the state's most important sectors, energy. When energy-sector activity is up, the effect on the local economy is positive.

How Does The Financial Trend Monitoring System Work (FTMS)?

FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.[3] Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government early on to potential problems and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation we used 22 measures. The measures omitted were either not applicable to Oklahoma City or the data is not currently available for the indicator. The group of indicators that were chosen should help Oklahoma City:

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

Despite the advantages of trend monitoring that are given above, it is important to note that the indicators by themselves will not explain specifically why a problem is occurring. Instead, decisions for further analysis can be based on the direction the indicator is moving. In addition, these indicators provide a snapshot of where the City has been. Some of these indicators can be predictive if the City continues to follow the trend, but the data included in the report indicates what has happened. It is up to City management to interpret why something has changed and determine the appropriate response.

Trend Period

A time period of five years was analyzed for the trend analysis. In most instances, the most recent five years (2010-2014) were examined. However, there were some instances when 2014 data was not available and therefore earlier time periods were used. The years used for each indicator are easily identifiable on the accompanying charts.

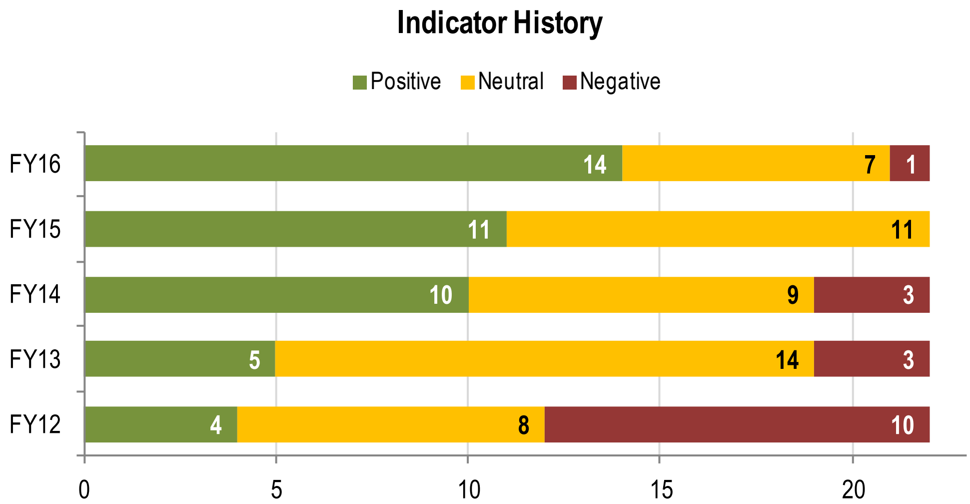
Overall Results

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

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

As the chart on the following page shows this year's FTMS has 14 positive indicators, 7 neutral indicators, and one negative indicator; overall, an improvement from last year's 11 positive and 11 neutral. Three indicators improved over last year: Enterprise Working Capital, Crime Rate, and Active Drilling Rigs. Only Grant Revenues worsened, going from neutral to negative trend.

This year's results show another year of improvement; a sign that the City is in a very favorable financial position.



☑ = Positive ☐ = Neutral ☒ = Negative

	Financial Indicators	Environmental Indicators
	☑ Revenue Per Capita	☑ Population
Revenues	☑ Sales Tax Revenues	☑ Airport Activity
	☐ Sales Tax as a % of General Fund	☑ Crime Rate **(Improved)**
	☐ Revenue Accuracy	☑ Average Weekly Wages
	☒ Grant Revenues **(Worsened)**	☑ Employment Base
	☑ Hotel/Motel Tax Revenue	☐ Property Value
		☐ Office Vacancy Rate
Expenses	☐ Fringe Benefits	☑ Active Drilling Rigs **(Improved)**
	☐ Employees per 1,000 Citizens	☑ Private Development Plans Submitted for Approval
	☑ Fund Balance	
Operations	☑ Liquidity	
	☑ Enterprise Working Capital **(Improved)**	
Debt	☐ Long-Term Debt	
Unfunded Liabilities	☑ Pension Funding Ratio	

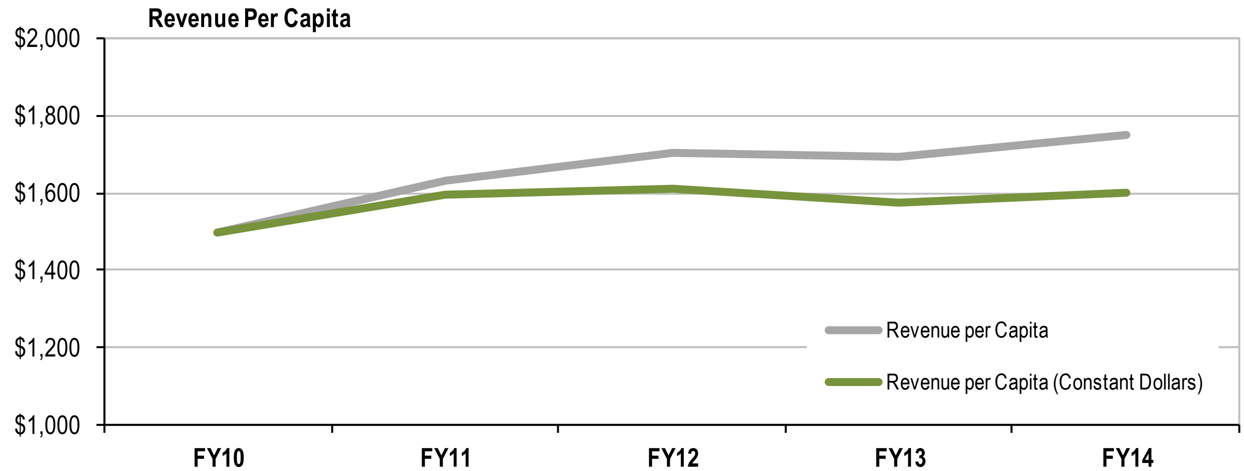
A description of each measure, the sources of data used, and a discussion of the measure rating are included in this section beginning with page 52.

What is 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 show the impact the national recession had on local finances and track our progress as the recovery continues. Management will monitor these areas and develop strategies to keep us moving in a positive direction financially.

REVENUE PER CAPITA

POSITIVE TREND



What is Revenue Per Capita?

Per capita revenue shows changes in operating revenues relative to changes in population size. As population increases, revenues and the need for services can be expected to increase proportionately. Therefore, the level of per capita revenues should remain at least constant in real terms. If per capita revenues were decreasing, a local government would need to find new revenue sources or reduce expenditures to maintain existing service levels. This assumes that the cost of service is directly related to population size.[4]

Why is This Important to Oklahoma City?

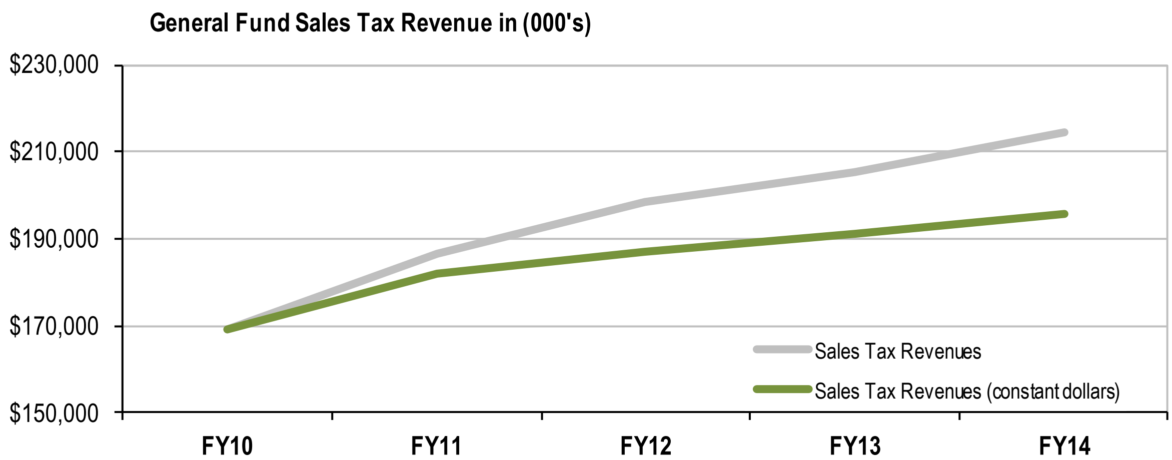
Over the five-year period, revenue per capita increased 6.73% after adjusting for inflation, resulting in a positive rating. This issue is delicate since revenue per capita is a reflection of the financial impact of the City's taxes and fees on citizens, but is also necessary to provide the level and quality of services citizens desire.[5] The City will continue to monitor existing revenue sources and look for new revenue possibilities in order to ensure revenue keeps up with population and inflation growth in the coming years.

Formula:

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

SALES TAX REVENUES

POSITIVE TREND



What Tax Revenues are Included in this Indicator?

Sales Tax, being the largest and most significant source of tax revenue, is considered by itself for this forecast. For an accurate analysis, Sales Tax revenues must be identified in both constant and current dollars. A change in growth rate in Sales Tax can have a number of causes including state or local economic health, changes in population, the movement of retail operations to and from other communities, and/or Sales Tax payers moving their base of operations to other jurisdictions.[5]

Why is This Important to Oklahoma City?

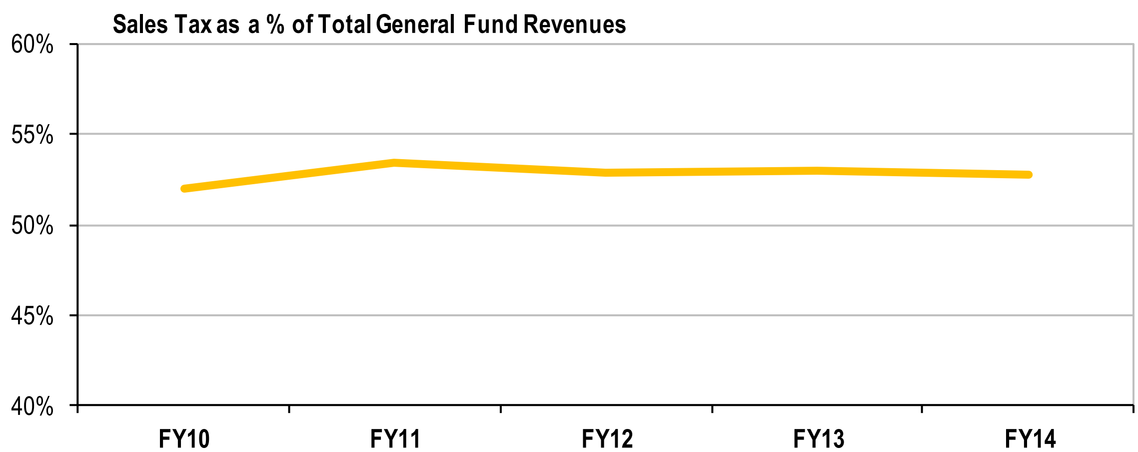
The chart above shows the continued dramatic rebound from the recession which began in Oklahoma City in FY11. Not only have nominal sales tax collections grown after adjusting for inflation, sales tax revenue has grown 16% over the five year period. The dramatic increase over the last four years has led to a positive rating for this indicator. In the current fiscal year, sales tax had grown at 3.81% through January. Overall, sales tax is projected to finish the year at about 3% growth which is slightly higher than the targeted growth of 2.81%. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

Formula:

$$\frac{\text{Sales Tax}}{\text{Consumer Price Index (2010 used as base year)}}$$

SALES TAX AS PERCENTAGE OF GENERAL FUND

NEUTRAL TREND



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

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

Why is This Important to Oklahoma City?

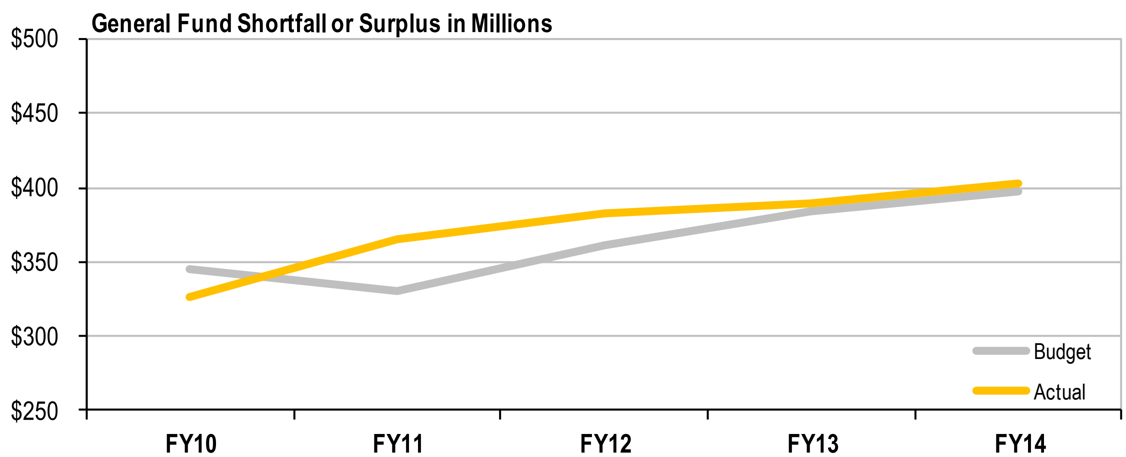
Ideally, Oklahoma City, or any municipality, needs diversity in its revenue sources. It is beneficial that Sales Tax contributes a significant part of Oklahoma City's revenue mix so that in times of economic growth and/or inflation the revenue yield can increase to keep pace with demand and higher prices. However, relying too much on Sales Tax leaves the City more vulnerable to economic downturns since other, more stable, revenue sources comprise a smaller portion of the City's total revenue. Sales Tax as a percent of General Fund revenues in Oklahoma City has averaged 53% since FY10. The consistent percentage of Sales Tax as a percent of total General Fund revenue indicates that the City's revenue base is less diverse; however, due to the small scale of the change from year to year this is rated as a neutral trend. Staff will continue to review fee levels and propose new revenue sources where possible to continue to move the City toward a more diversified revenue mix.

Formula:

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

REVENUE ACCURACY

NEUTRAL TREND



What is considered when determining Revenue Accuracy?

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

Why is This Important to Oklahoma City?

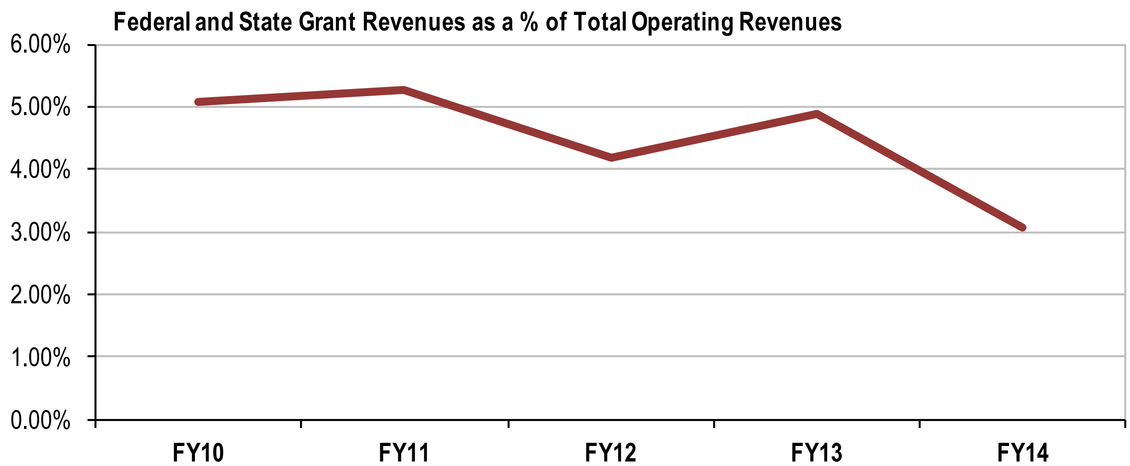
Keeping this variance to a minimum means services have not been unnecessarily reduced because of a perceived shortage in revenue that did not occur; or that new services were not established that could not be maintained because revenues do not meet estimates.

In FY10 revenue projections were 5.7% below target as a result of the recession. Projections were conservative the following two years; however, the local economy recovered faster and stronger than anticipated with revenue exceeding target by 10.4% in FY11 and 6.1% in FY12. In FY13 projections were within 1.2% of the actual revenue received and within 1.3% in FY14. The average variance over the five year period was 2.68%, which is above the City's stated goal of having revenues within 2% of projections; therefore this indicator is rated neutral. In the current fiscal year, General Fund revenue was 1% above target through December.

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

GRANT REVENUES

NEGATIVE TREND



What are Grant Revenues?

Grant revenues generally come from state and federal agencies for specific purposes. An overdependence on grant revenues can be harmful – especially during economic downturns when Federal and State governments struggle with their own budgets. Nevertheless, a municipality may want to maximize the use of grant revenues consistent with its service priorities.[8] The primary concern is to understand the local government's vulnerability to reductions of such revenues and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

Why is This Important to Oklahoma City?

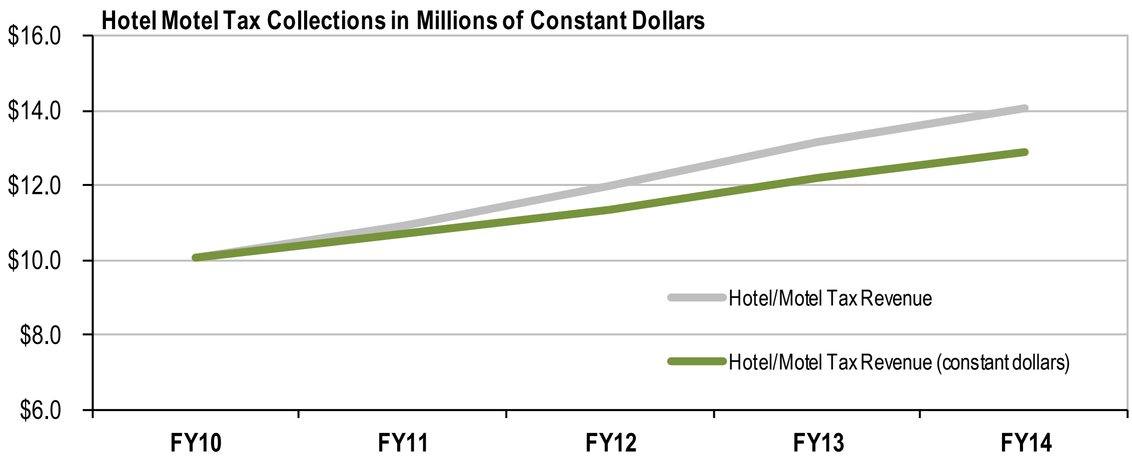
Grant revenues, as a percentage of operating revenues, has been fairly stable in previous years remaining in the 4% to 5% range. However, in FY14 Federal and state grant funding were at their lowest level since 2001. Operating revenue increased 0.5% but grant funding provided at the federal and state level decreased by 35% from the prior year. Several grants, such as FAA grants for improvements at the airports, are based on funding specific capital project. In FY14 there were fewer capital projects than usual. Grant revenues are expected to increase in FY15 but due to the 25% decline in grant revenue from FY10 this rating was downgraded to negative.

Formula:

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

HOTEL MOTEL TAX

POSITIVE TREND



Why is Hotel Motel Tax an indicator for Financial Performance?

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

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

Why is This Important to Oklahoma City?

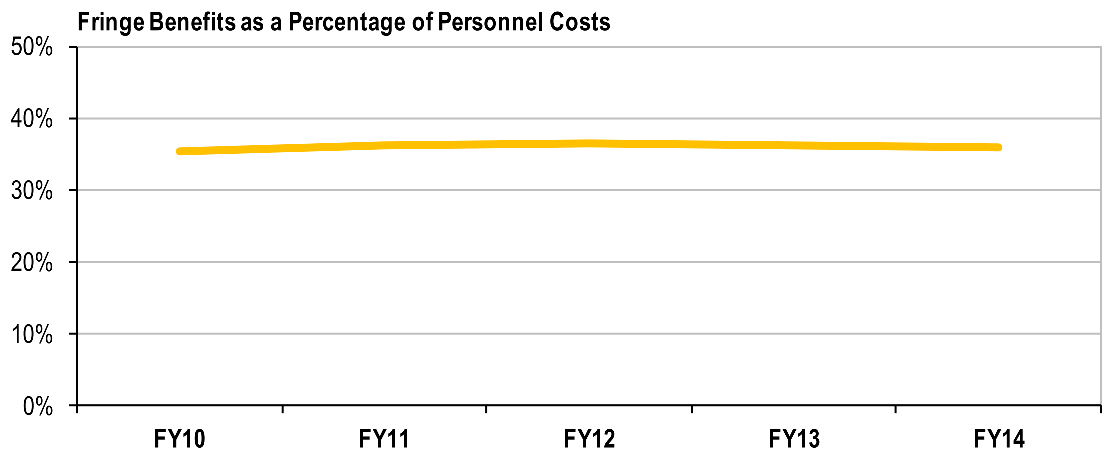
Hotel Motel Tax for Oklahoma City continued the growth trend which began in FY11. In terms of real dollars, Hotel Motel Tax revenue in FY14 finished 7.2% higher than the previous year. The impressive recovery from the recession has led us to assign a positive rating for this indicator. Hotel Motel Tax was 5.5% above prior year at the end of January, which indicates this positive trend may continue.

Formula:

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

FRINGE BENEFITS

NEUTRAL TREND



What are Fringe Benefits?

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

Why is This Important to Oklahoma City?

Fringe benefit expenditures as a percentage of personnel costs were relatively steady over the last four years averaging 36%, which was slightly higher than the 35.4% experienced in FY10. Staff has worked to keep benefit cost increases from growing too fast through a number of initiatives, such as higher co-pays, additional premium sharing and other benefits changes. In FY15, an employee medical clinic is expected to open in an effort to help control the cost of health insurance plans. Staff will continue to monitor this important component of Oklahoma City's compensation package.

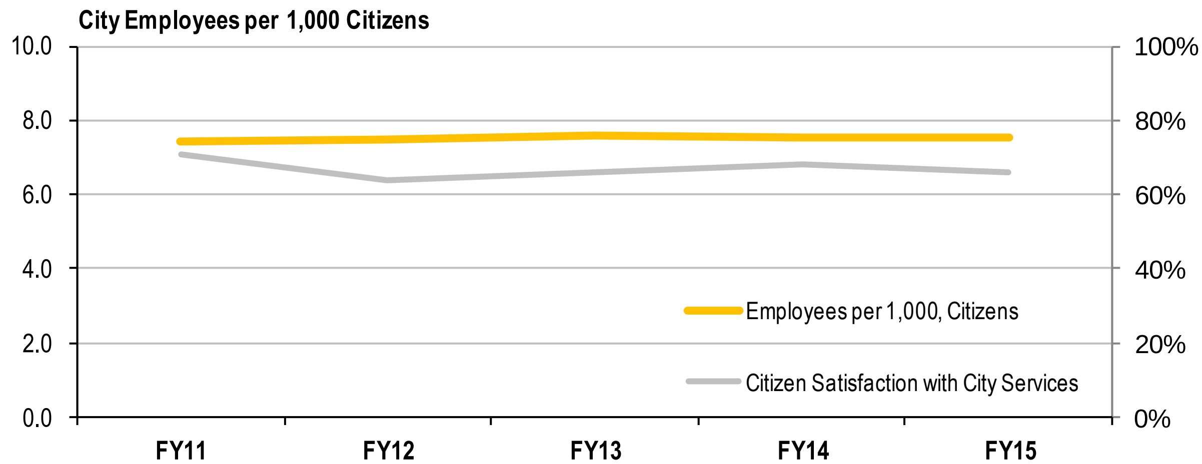
This analysis includes the contributions being made for retiree health insurance as a fringe benefit. Post employment health insurance, however, is currently made on a primarily pay-as-you-go basis. This differs from advance funding, which is the method used for pension contributions. The pay-as-you-go basis only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. The Other Post Employment Benefits Trust (OPEBT) was established to begin to address the issue of future liability and funding levels for retiree health insurance. The City has been making contributions in excess of pay as you go funding. At the end of FY14, OPEBT's current funding level was 5.8%.

Formula:

$$\frac{\text{Fringe Benefit Expense}}{\text{Salaries and Wages Expense}}$$

EMPLOYEES PER 1,000 CITIZENS

NEUTRAL TREND



What Does Employees per 1,000 Citizens Measure?

Personnel costs are a major portion of a local government's operating budget, therefore plotting changes in the number of employees is a good way to evaluate changes in expenditures. Changes in the number of employees can be an indicator of whether expenses are going to grow faster or slower than population, assist in determining if government is becoming more or less labor intensive, and if personnel productivity is increasing or decreasing.[9]

Why is This Important to Oklahoma City?

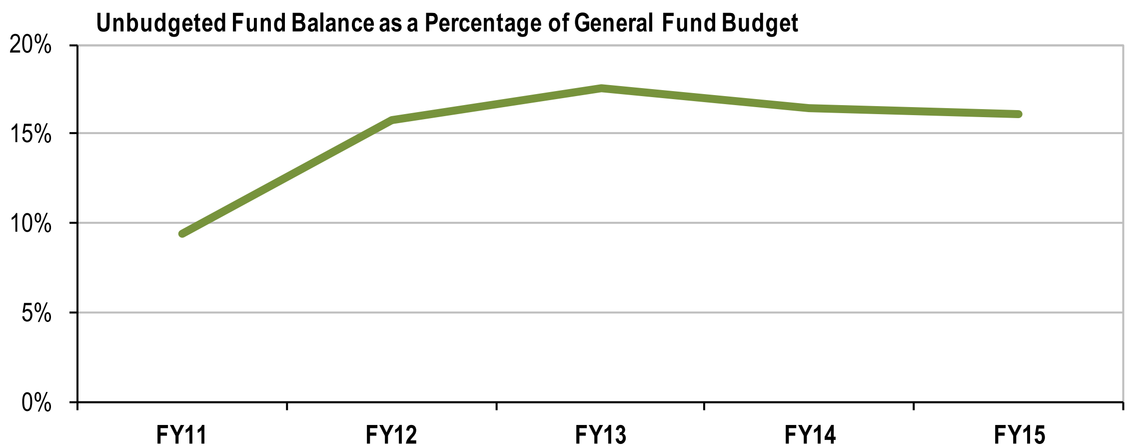
The number of employees per 1,000 citizens provides a quantitative measure of government efficiency, while citizen satisfaction provides a qualitative measure. Population has grown 6.5% since FY11, while the number of City employees has increased by 8%. Although, the number of employees has increased slightly faster than the population, the ratio has remained relatively flat resulting in a neutral trend. To ensure that the ratio of employees to population is sufficient to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The most recent citizen survey, completed in 2014, reported 66% of citizens were satisfied with city services which is significantly higher than the other large cities in the U.S. that average 48% satisfaction. Citizen satisfaction with city services has remained fairly steady over the five year period, ranging from a high of 71% in FY11 to a low of 64% in FY12, which also indicated a neutral trend.

Formula:

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

FUND BALANCE

POSITIVE TREND



What is fund balance?

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

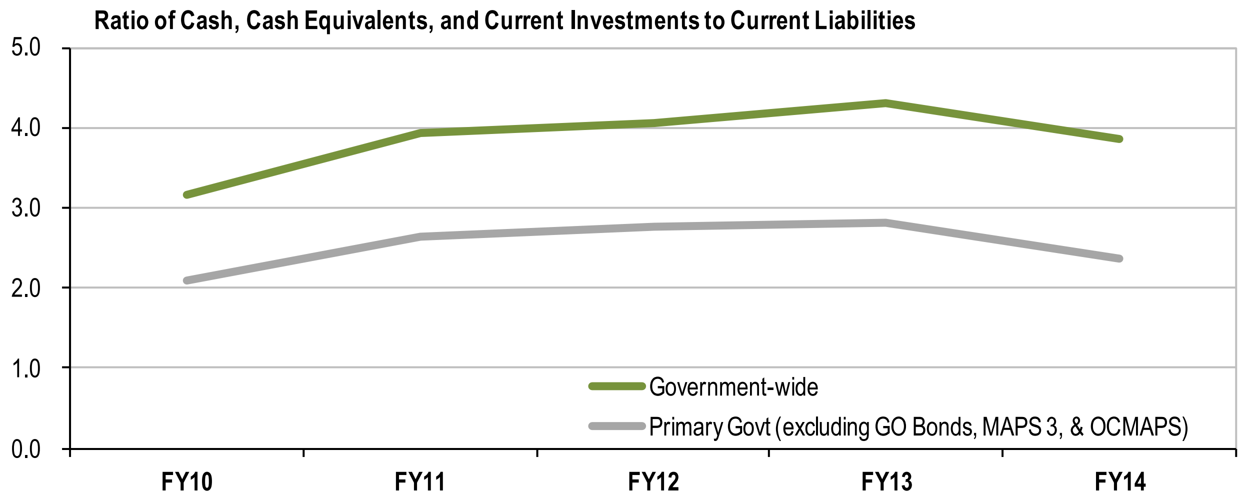
Why is This Important to Oklahoma City?

Prior to FY11, the target range for unbudgeted fund balance was 6-10% of the General Fund budget. The City began FY09 and FY10 exceeding the policy.[10] In FY10, significant revenue shortfalls caused by the downturn in the economy resulted in the use of fund balance to supplement recurring revenue in order to maintain services. Having fund balance to call on during the recession reaffirms the importance of having an adequate reserve. In FY11, the City Council adopted new financial policies that established a range of 8-15% for unbudgeted fund balance. Strong revenue growth in the last three years has resulted in beginning fund balances that exceed target. City Council elected to use excess fund balance of $11 million in FY13 and $8 million in FY14 to fund street resurfacing and capital projects. Even with the use of fund balance in FY13 and FY14 the percent of unbudgeted fund balance has remained at the high end of the 8 to 15% range set by City policy.

Formula:

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

LIQUIDITY



What is Liquidity?

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

Why is This Important to Oklahoma City?

Oklahoma City's liquidity ratio dropped to 3.17 in FY10 due to an increase in current liabilities.[11] Since that time, the liquidity ratio increased through FY13 when it finished at 4.3 before dropping to 3.9 in FY14. The reason for the decline in FY10 was an increase in the liabilities attributable to timing; that is several large payments were in process but not completed by the end of the year so they showed as unpaid liabilities. In FY14 the ratio declined due to changes in component units, such as OCMAPS, with planned capital projects completed. While the decline in FY14 looks steep in the chart above, the ratio has remained very healthy over the last five years, as such this indicator is rated positive.

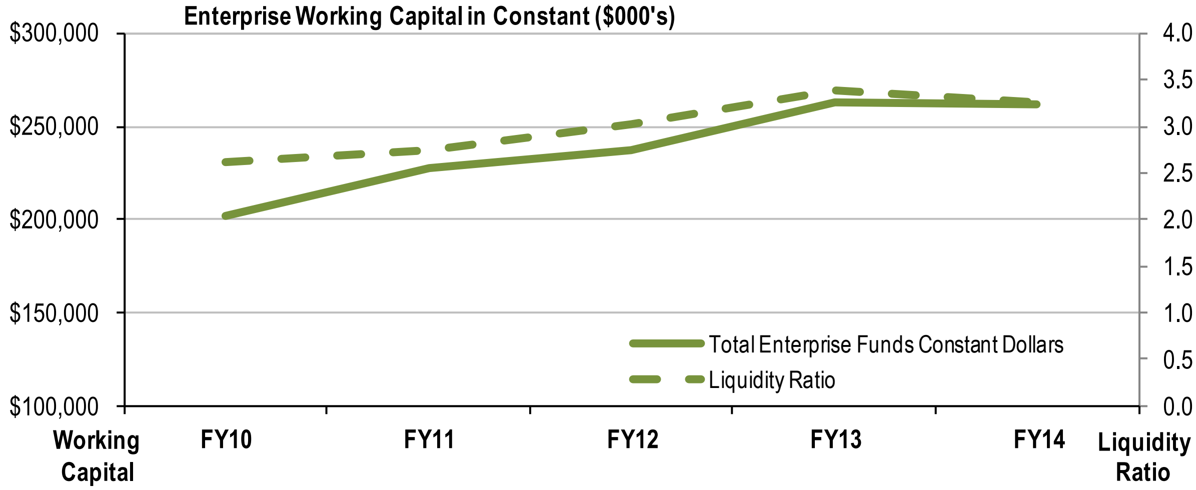
A secondary data set was added to this indicator to provide a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, instead it excludes three of the largest funds, General Obligation Bonds, MAPS 3, and OCMAPS, which are restricted for the purpose of funding capital projects. This *"practical"* liquidity rate has also trended positive during the five year period and provides insight into our cash position for operations. It finished FY14 at 2.37 indicating that operational funding is also very healthy.

Formula:

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

ENTERPRISE WORKING CAPITAL

POSITIVE TREND



What is Working Capital?

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

Why is This Important to Oklahoma City?

Enterprise working capital, illustrated in constant dollars in the chart above, declined in FY10.[12] The drop in working capital was attributed to an increase in current liabilities, primarily an additional $15 million related to the payment OCWUT made to the Oklahoma Water Resources Board for Lake Sardis.

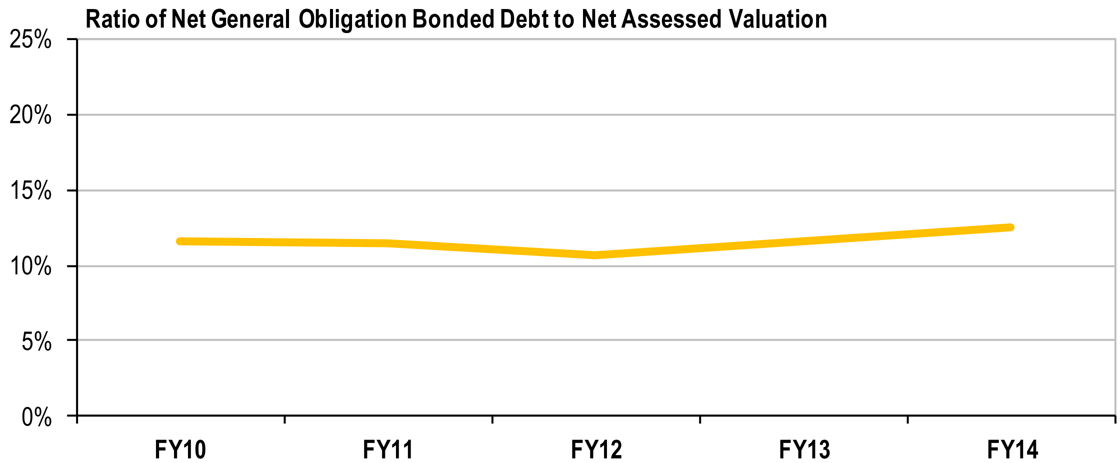
Significant improvement was seen between FY11 and FY13 before leveling out in FY14 at $261 million, therefore, this indicator has been rated as positive. Working capital at this level, and a liquidity ratio of 3.25, suggests that Oklahoma City's enterprises, as a whole, were able to make expenditures for capital outlay and improvements after paying all current liabilities incurred from daily operations.

Formulas: Enterprise Working Capital = Current Assets – Current Liabilities

$$\text{Liquidity Ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

LONG-TERM DEBT

NEUTRAL TREND



How is Long Term Debt Measured Here?

Long term debt for this analysis is examined by looking at the General Obligation net bonded debt ratio. The net bonded debt ratio is simply the amount of long-term debt for which the government has pledged its full faith and credit divided by the assessed valuation 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.[13]

Why is This Important to Oklahoma City?

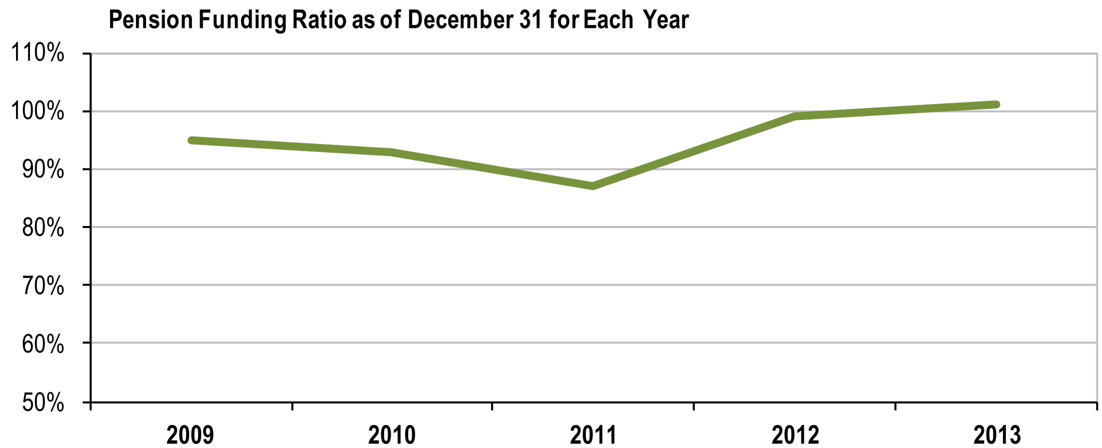
Oklahoma City's long-term debt ratio has remained consistent from FY10 to FY13 at 11.5% with only slight variations. In FY12 the radio dropped to 10.7% due to the refunding of General Obligation bonds, resulting in a decrease in net bonded debt. Over the last five years, long term debt has increased from $522 million in FY10 to $615 million in FY14[14]. Although long-term debt ratio increased to 12.5% in FY14, it is still viewed as being stable as a percentage of assessed valuation and is rated as neutral.

Formula:

$$\frac{\text{Net General Obligation Bonded Long Term Debt}}{\text{Assessed Valuation}}$$

PENSION FUNDING RATIO

POSITIVE TREND



What is the Pension Funding Ratio?

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

Why is This Important to Oklahoma City?

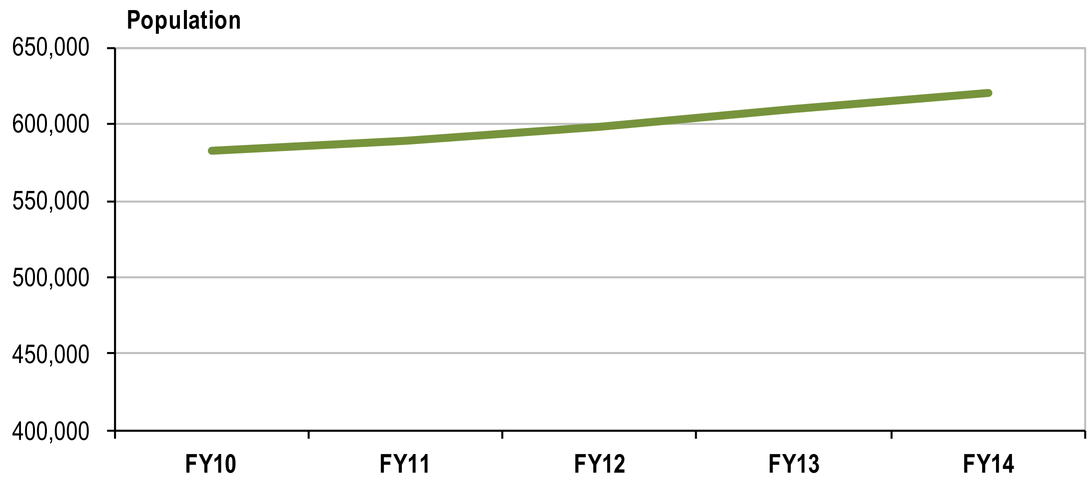
The Oklahoma City Employee Retirement System (OCERS) is the primary pension system for many City employees. Fire and Police uniform employees are covered by state-operated pension systems and Central Oklahoma Transit and Parking Authority employees are covered by a separate pension system. In calendar year 2011, the OCERS actuarial funding ratio dropped to 87%, marking the third year in a row with the system not fully funded. The severe market downturn in 2008 reduced the valuation of plan assets and because the losses are spread over several years it impacted returns in the succeeding years. In response, the OCERS Board made some plan changes including a reduction in presumed cost of living adjustments in future years. Based on the return to 101% funding the indicator is rated as positive. The City continues to make the actuarially recommended contributions to OCERS.

Formula:

Ratio Provided and Calculated by Pension Plan Actuaries

POPULATION

POSITIVE TREND



What does Population Growth Indicate?

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

Why is This Important to Oklahoma City?

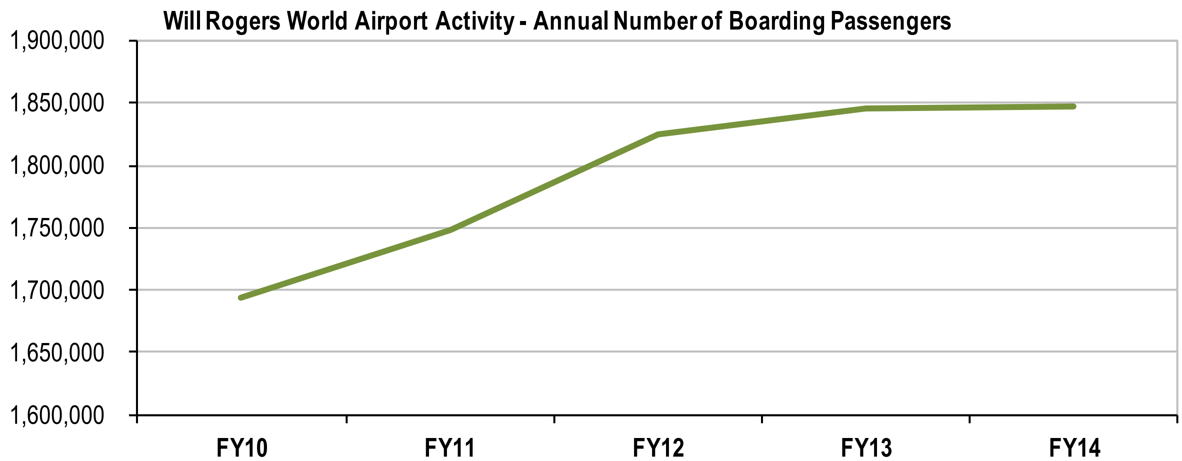
Oklahoma City has realized consistent steady growth in population since FY10 with an estimated 620,163 residents at the end of FY14.[15] This is an increase of 6.5% for the five-year period. This is a positive trend and since the growth has been relatively steady Oklahoma City has been able to increase its revenue base without having immediate, unplanned pressures for capital outlay and increases in service levels. Future monitoring of the population as compared to other financial indicators will help determine the cost of serving new residents in relation to the revenues they contribute through taxes.

Formula:

Population Data from the City of Oklahoma City Planning Department

AIRPORT ACTIVITY

POSITIVE TREND



What Does Airport Activity Measure?

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

Why is This Important to Oklahoma City?

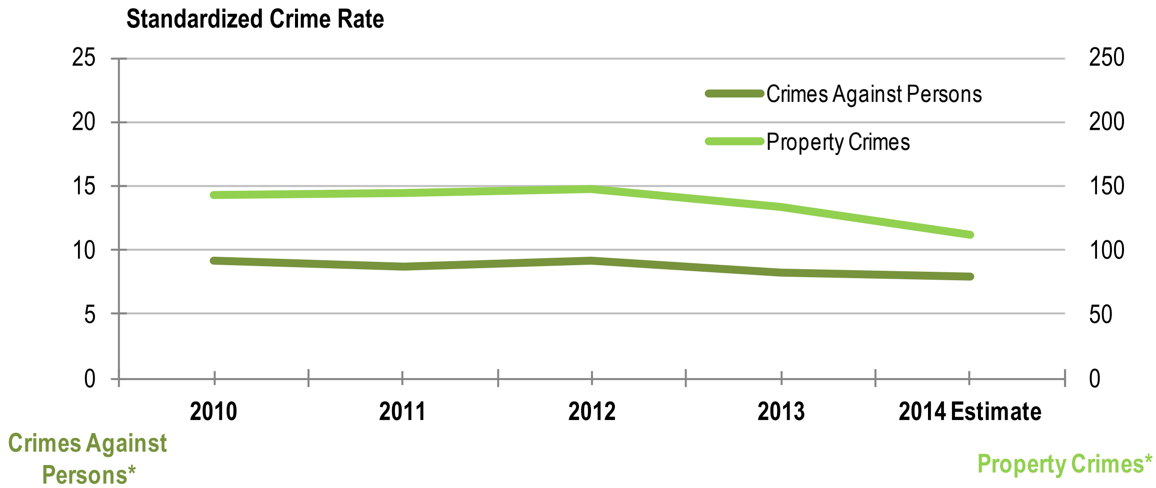
Each of the activities mentioned above can directly affect revenue yields through tax receipts associated with tourism and commerce. Increasing numbers of passengers using Oklahoma City airports are good for the City whether the travel is for business or pleasure. Airport activity for Oklahoma City grew at a rate of 9% over the five year period with FY14 being the highest number of boarding passengers out of the five year period. During the last three years Will Rogers World Airport has increased the number of destinations and airports served which has helped fuel some of the increase in passengers. For example, Alaska Airlines has announced a new non-stop route from Oklahoma City to Seattle effective July 1, 2015.

Formula:

Annual Number of Passengers Boarding at Will Rogers World Airport

CRIME RATE

POSITIVE TREND



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

Why is the Crime Rate an Indicator for Financial Condition?

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

Why is This Important to Oklahoma City?

With a third of the General Fund budget dedicated to Police and Courts, monitoring this trend and considering it in forecasts of future expenditures is financially prudent. The number of property crimes per 1,000 households has decreased over the last five years from 143 crimes per 1,000 households in calendar year 2010 to an estimated 112 in 2014. The number of crimes against persons has decreased from 9 per 1,000 in population in 2010 to an estimated 8 per 1,000 in population in 2014. Although, the five-year period shows a peak in 2012, crimes against persons and property declined overall, so this indicator has been rated positive. The Police Department attempts to identify crime trends in real time and continues to enhance its efforts with intelligence-based policing and targeted enforcement through analysis of local crime data. The Police Department also continues to embrace Community Based Policing and proactively addresses concerns expressed by Oklahoma City residents. Public Safety is a priority for City Council with 116 positions added to Police Department staffing since FY13.

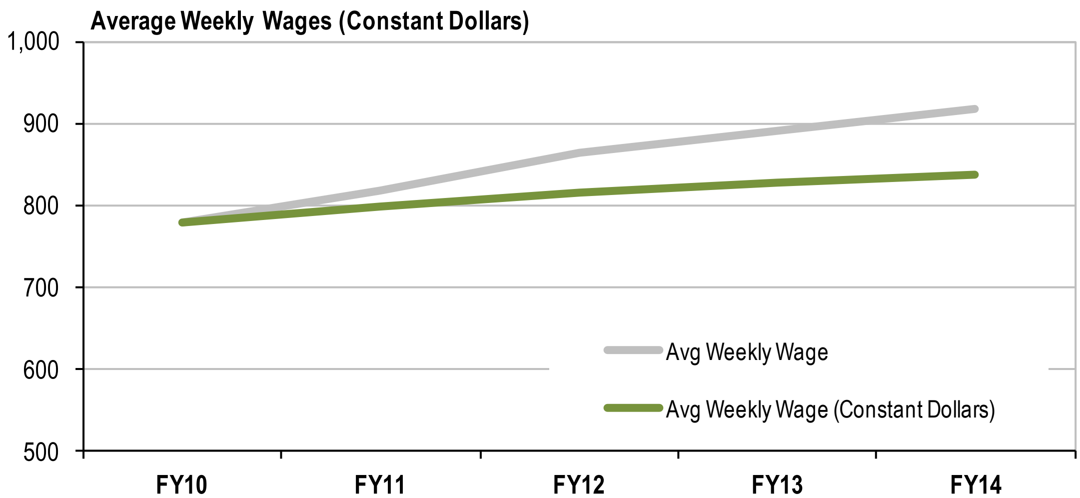
*Data for 2014 is estimated using actual data from January – September with 4th quarter data being an average of first nine months of 2014.

Formula:

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

AVERAGE WEEKLY WAGES

POSITIVE TREND



What Does Average Weekly Wages Indicate?

Average Weekly Wages (AWW) is the amount of income a person earns each week and is a primary measure of a community's ability to generate sales tax. AWW is affected by the ratio of full-time to part-time workers, as well as the rate of pay for those workers (high-paying vs. low-paying occupations). The more persons working each week and the more they earn the larger the impact on the amount of sales tax generated, the City's primary funding source for the General Fund. A decline in AWW leads to a reduction in purchasing power that, in turn, hurts retail business and can ripple through the rest of the local economy. Data on average weekly wages is only available at the county level rather than specific to Oklahoma City. For this analysis, Oklahoma County is used as it more closely mirrors the City's demographics.

Why is This Important to Oklahoma City?

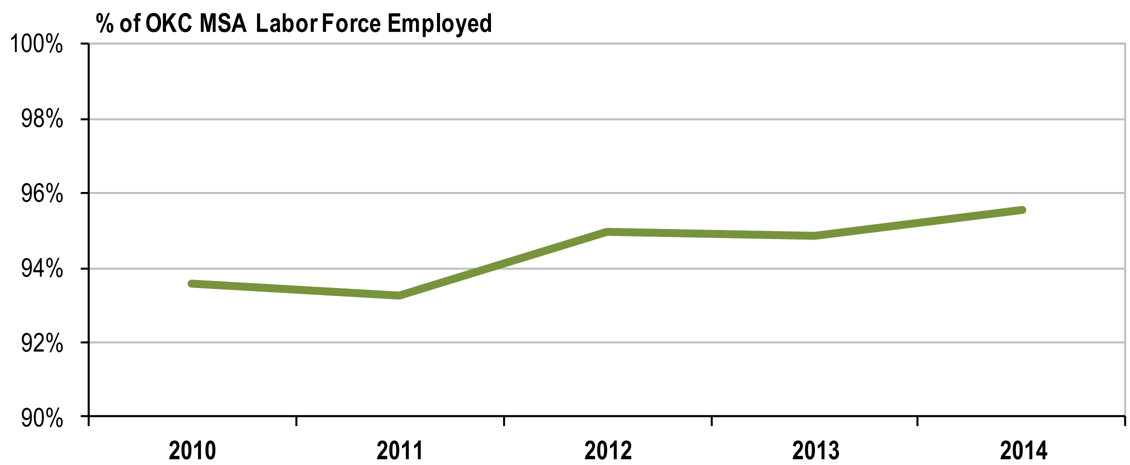
Average Weekly Wages have been increasing since FY10 both nominally and in constant dollars resulting in a positive rating for this indicator. Higher wages mean Oklahoma City residents, on average, are able to purchase more goods and services. In addition, by attracting and retaining employers with jobs with higher than average wages the City is able to convey its commitment to economic development and its impact on citizen income levels and quality of life.

Formula:

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

EMPLOYMENT BASE

POSITIVE TREND



Why is the Percentage of Population Employed an Indicator for Financial Condition?

Employment base is directly related to business activity and personal income. A growing employment base provides a cushion against short run economic downturns in one sector. In addition, a higher percentage of the population working results in higher per capita incomes. Both of these factors will have a positive influence on the local government's financial condition. A reduced percentage of employed citizens can be an early sign of an economic downturn, which would likely have a negative impact on government revenues.

Why is This Important to Oklahoma City?

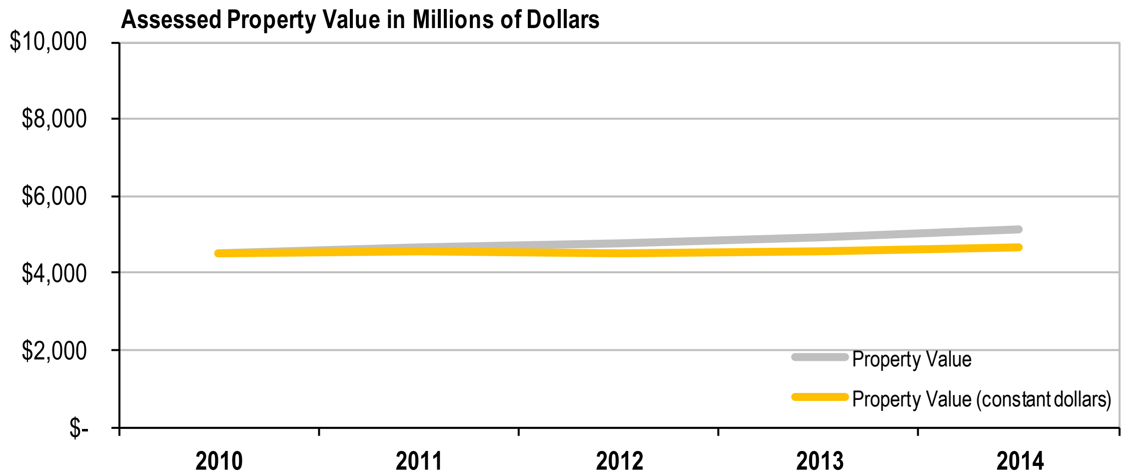
The percentage of the labor force of the Oklahoma City Metropolitan Statistical Area (MSA) that is employed was at 95.5% through November in calendar year 2014. The increase since 2010 is the reason this trend is rated positive. As noted in the Economic Forecast presented at the beginning of the forecast, Dr. Russell Evans, Economist at Oklahoma City University, has projected continued increases in private sector employment in 2015 and 2016.

Formula:

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

PROPERTY VALUE

NEUTRAL TREND



How Can Property Values Affect a Local Government's Finances?

Even for communities that are not heavily reliant on property tax for operations, property values can be a useful sign of the health of the local economy. Population and economic growth will increase property value because demand will drive prices up. A city that is not reliant on property tax but is experiencing declines in property value still has reasons for concern because declines in property value affect revenues for capital improvement and the economic health of the City. Credit rating organizations review the local government's tax base to assess the financial capacity of a local government. A decline in property value could affect the credit rating and borrowing ability of a local government.[16]

Why is This Important to Oklahoma City?

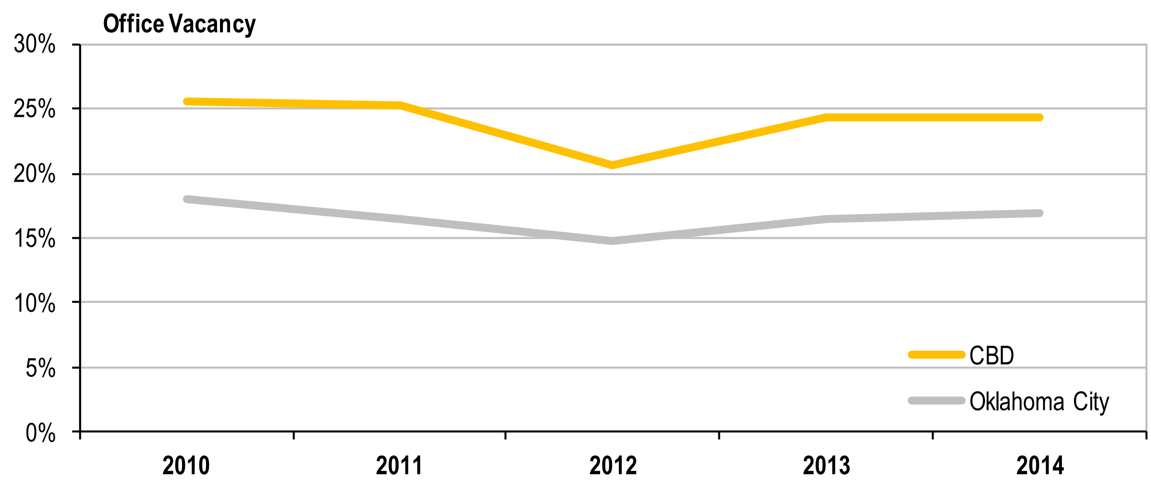
While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City's finances; namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City's debt capacity allowing more capital projects. The actual assessed value of property increased again in FY14. Since FY10 Oklahoma City's inflation adjusted assessed property value has increased approximately 3.8%, averaging growth of 0.96% per year.[17] While this could be seen as positive, the inflation adjusted growth is lower than would be expected based on the high level of economic activity and population growth in recent years. Based on the trend of inflation adjusted property values, this has been rated as a neutral trend. The City will continue to monitor this trend for future affects of the recent change in law that reduced the cap on assessed valuation growth from 5% per year to 3% per year.

Formula:

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

OFFICE VACANCY RATE

NEUTRAL TREND



Why is Vacancy Rate an Indicator for Financial Performance?

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

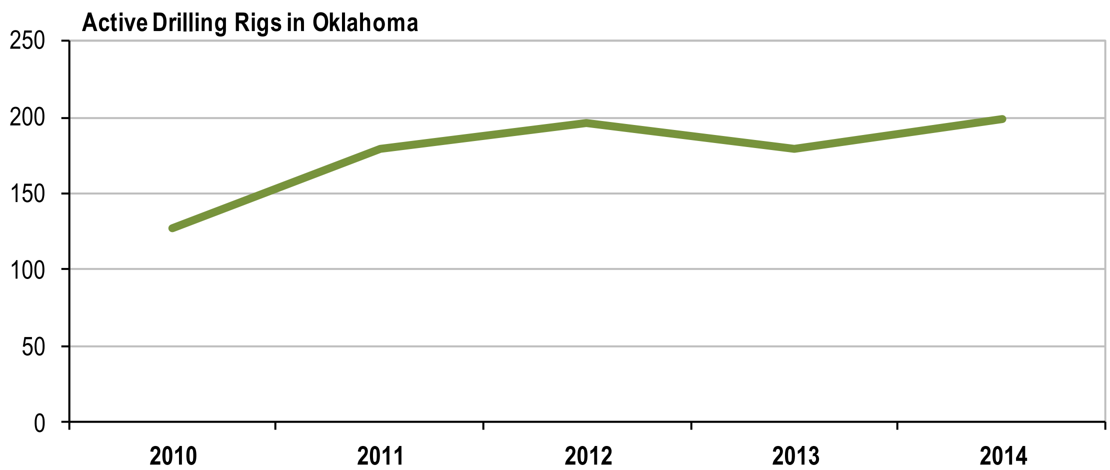
Why is This Important to Oklahoma City?

For the purposes of this trend analysis, the office vacancy rates for Oklahoma City's central business district (CBD) and the greater Oklahoma City area were examined. If vacancy rates increased to an unhealthy rate, it would have a negative impact on property values and incomes. In 2010, the recession had a negative impact on vacancy rates driving rates up within the central business district and the City as a whole; but improvements in the local economy reversed the climb in 2011 and 2012 and vacancy rates declined as the energy sector absorbed more space while new office space was under construction. With construction complete, the Oklahoma City market returned to *"healthy vacancy rates and historically high rental rates"* as noted in the Price Edwards and Company Oklahoma City 2014 Mid-Year Office Market Summary. In addition, construction of two new office towers have been announced with construction expected to begin in 2015. Other than 2012, the vacancy rate has remained fairly stable resulting in a neutral rating for this indicator.

Formula: Vacancy Rates from Price Edwards Oklahoma City Office Market Summary[18]

ACTIVE DRILLING RIGS

POSITIVE TREND



Why are Active Drilling Wells an Indicator for Financial Performance?

Tracking oil and gas activity in the state provides insight on the level of activity in one of our state's most important sectors. Activity in this sector is very dependent on prices for oil and natural gas. If energy-sector activity is increasing the effect on the local economy will be positive. Likewise a decline in activity will be detrimental to the local economy.

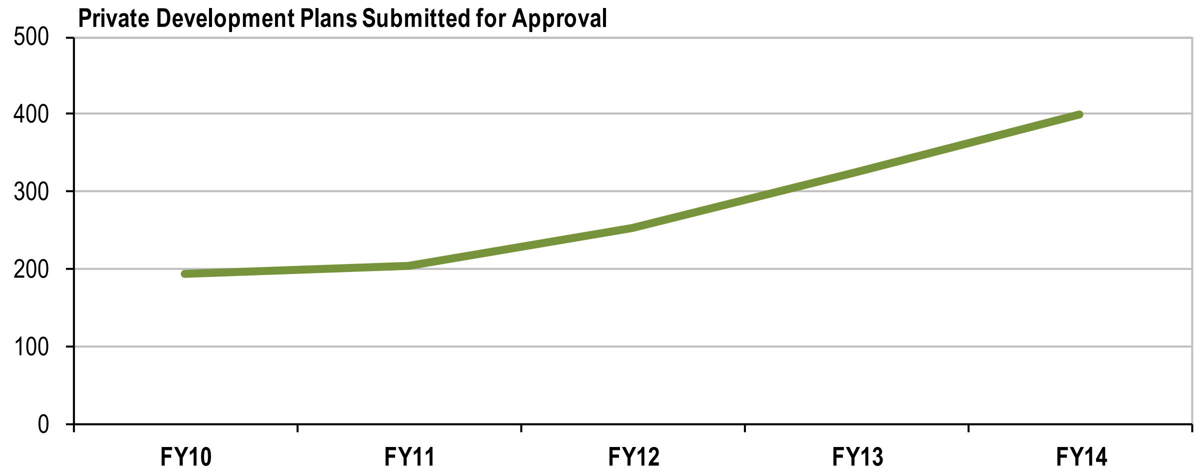
Why is This Important to Oklahoma City?

The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A recent study[19] conducted for the Oklahoma State Chamber of Commerce by Dr. Mark Snead, indicates that the oil and gas sector is as big a share of statewide earnings as it was at the height of the oil boom in 1982. The steep decline in energy prices that occurred from the last half of 2008 through late 2009 resulted in a dramatic decline in energy sector activity in Oklahoma in 2009. As oil prices recovered, so did Oklahoma's active rig count with drilling activity increasing from 2009 to 2012. In 2013, active rigs dropped to 178 but increased again in 2014, recording the highest monthly rig count since 2005, with 214 active rigs in September. The trend in drilling activity had been steadily positive since 2010 which resulted in a positive rating. However, since oil prices have dropped it is clear this level of activity will not be sustained in 2015. Staff will be monitoring this indicator closely.

Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated [20]

PRIVATE DEVELOPMENT PLANS

POSITIVE TREND



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

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

Why is This Important to Oklahoma City?

Private development plans submitted are a key indicator of the confidence local developers have in the economy. These permits set the stage for spending on infrastructure in both residential and commercial developments which precedes spending on construction. An increase in the number of plans submitted shows a level of confidence by developers in the future prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. In addition to indicating the likely direction in the construction sector, the fees paid for plan review provide revenue for the General Fund and in FY14 generated $2.4 million. The actual count of plans submitted to Public Works increased 22% in FY14 but is 14% below the amount of plans reviewed in FY06, which topped three years of all-time growth. Although not fully recovered from pre-recession activity, this indicator has improved significantly over the last five years and current revenue collections indicate the trend will continue into 2015, therefore it is rated positive.

Formula: Sum the number of plans submitted for sanitary sewer, paving, drainage, storm sewer and water infrastructure to the Public Works Engineering Line of Business[21]

1 Nollenberger Karl, Sanford M. Groves, and Maureen Godsey Valente, Forward to Evaluating Financial Condition: A Handbook for Local Government by Stephen J Gauthier. Washington DC: ICMA, 2003. v.

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

3 Nollenberger 3.

4 Nollenberger 16.

5 Nollenberger 32.

6 Nollenberger 26.

7 Nollenberger 41.

8 Nollenberger 23.

9 Nollenberger 51.

10 City of Oklahoma City Comprehensive Annual Financial Report, 2009-2013.

11 City of Oklahoma City Comprehensive Annual Financial Report, 2009-2013.

12 City of Oklahoma City Comprehensive Annual Financial Report, 2009-2013.

13 Nollenberger 79.

14 City of Oklahoma City Comprehensive Annual Financial Report, 2013-2014. Statistical Table 13

15City of Oklahoma City Planning Department.

16 Nollenberger 120.

17 City of Oklahoma City Statement of Debt Service Fund and Requirements from Ad Valorem Tax Levy, 2010-2014.

18Price Edwards Oklahoma City Mid-Year 2013 Office Market Summary. November, 2013. <http://www.priceedwards.com/sections/market/downloadSecureFile.php?id=53>

19 Wilmoth, Adam. "Oil industry's significance returns to 1982-levels" , The Daily Oklahoman 16 Jan 2014 Print

20Baker Hughes Rig Counts. December, 2013 <http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm>

21City of Oklahoma City Public Works Department, December, 2014

THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY16-20


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

SECTION 5

FORECAST ISSUES

The Forecast Issues section highlights key financial issues facing departments in the coming years. The goal for this section of the forecast is to provide an *"early warning system"* to the City Manager and City Council about significant financial issues that are generally beyond the scope of the annual budget process. By raising awareness of the issues being faced in the intermediate and long-term future, and highlighting the consequences of not addressing them, we are able to identify issues for further examination, discussion and action.

Many of these issues are ongoing needs that do not have a specific deadline for addressing them. Some issues, however, do have specific legal or other deadlines. Where there is a specific timeframe, the fiscal year when action must be completed has been identified.

This year we are highlighting eight significant areas for additional attention. Some of these are cross-cutting issues that impact multiple departments, such as MAPS 3 operating costs. Overall, there are a total of 62 key issues that departments are facing which are included in this section with a short description of each. All of the issues are listed in the table on the following page.

HIGHLIGHTED ISSUES
Funding of Street Improvements
Implemenation of Comprehensive Plan
Long-Term Water Capital
MAPS 3 Operating Costs
Public Safety Communication System
Public Safety Service Level Improvements
Public Transporation System Improvements
Retiree Health Costs - OPEB

Long-Term Revenue Enhancement

The list of needs facing City departments is extensive. While some of the smaller cost items may be addressed through the current revenue structure, effectively addressing the critical higher cost issues will require new revenue sources. Possible revenue sources available that provide significant revenue include:

- Property tax for capital and/or operations
- Sales tax
- Fuel Tax
- Streamline Sales Tax for Internet Sales

The first three items listed would all require a vote of the people to enact. Property tax for operations would also require a change in Oklahoma law to allow municipalities to use property tax for operations as counties and schools do now. The final item, enactment of national standards for streamlined Sales Tax collection, would require federal legislation to put local merchants on equal footing with internet retailers.

Long-Term Water Capital. At left, is the NW extension of a water utility transmission main from the Hefner Plant that will interconnect the Hefner and Draper Water Systems.

FORECAST ISSUES BY DEPARTMENT

Department	Issue	Facility	Fleet	Personnel	Services	Supplies/Materials	Page No.
Airports	Maintain and improve existing building systems and aging infrastructure	●					88
Airports	Terminal Building Improvements	●					88
Airports	Construction of a Third Five-Story Parking Garage	●					88
Auditor's Office	Additional Personnel			●			89
Auditor's Office	Contracted Information System Audits				●		89
City Clerk's Office	City-wide Records Management Assessment by Consultant				●		89
City Clerk's Office	Central Facility for City Records	●		●			89
City Clerk's Office ***NEW***	Conversion of Records from Microfilm to Digital Format				●		90
Development Services	Improving Live Release Rate			●	●	●	90
Development Services	Increased IT Support			●		●	90
Development Services	Code Enforcement Program Support	●	●	●	●	●	90
Finance	MAPS 3 Operating Costs		●	●	●	●	83
Finance	Retiree Health Insurance - OPEB			●			87
Finance	Financial Reporting for Unfunded Pension Liabilities			●			91
Fire	Staffing Levels			●			85
Fire	Facility Renovations	●					91
Fire	Public Safety Fleet		●			●	85
General Services	Americans with Disability Act (ADA) Compliance	●				●	91
General Services	Facility Asset Management			●			91
General Services	Fleet Services		●				92
Information Technology	Public Safety Communications System				●	●	84
Information Technology	Primary Data Center	●				●	92
Information Technology	FY 2018 PeopleSoft Major Upgrade				●	●	92
Municipal Counselor's Office	Reorganization, Re-Classification and Increase of Staffing Levels			●	●	●	93
Municipal Counselor's Office	Increasing Operational Expenses				●	●	93
Municipal Counselor's Office	Laptops for Criminal Justice					●	93
Municipal Court	Loss of Public, Employee and Civic Center Event Parking	●					93
Municipal Court	Properly Equipping New Court Facility					●	94
Municipal Court	Possible Relocation of the County Jail		●	●		●	94
Office of Sustainability ***NEW***	Utility Rates Set to Increase				●		94
Office of Sustainability	Weather Impacts to City Services				●	●	94
Office of Sustainability ***NEW***	Waste Diversion				●	●	95
Parks and Recreation	Park Facilities	●					95
Parks and Recreation	Operating Partnerships, Collaborations, and Funding			●	●	●	96
Parks and Recreation	Improvements to Civic Center Music Hall	●					96

FORECAST ISSUES BY DEPARTMENT

Department	Issue	Facility	Fleet	Personnel	Services	Supplies/Materials	Page No.
Personnel	Retiree Health Insurance - OPEB			●			87
Personnel	Healthcare Reform			●	●		96
Personnel	Occupational Health Clinic	●				●	96
Personnel	Employee Medical Clinic			●	●		97
Personnel	Professional Services Contract to Update the Physical Requirements and Working Conditions on Job Descriptions				●		97
Planning	Neighborhood Revitalization Projects and Initiatives			●	●		97
Planning	Implementation of Comprehensive Plan				●		81
Planning	Urban Commercial Districts and Neighborhoods				●		98
Police	Staffing Levels		●	●			85
Police	Public Safety Fleet		●				85
Police	Technology Equipment Maintenance and Replacement		●	●		●	99
Police ***NEW***	Body Worn Video and Audio Recording Devices			●	●	●	99
Police	Facility Relocation, Maintenance and Repair	●					100
Public Information & Marketing	Citizen and Employee Engagement			●	●	●	101
Public Information & Marketing	Aging Video Equipment					●	101
Public Information & Marketing	Public Events Management			●			101
Public Transp. & Parking	Public Transportation System Enhancements		●	●	●	●	86
Public Transp. & Parking	Asset Retention and Replacement	●	●				102
Public Transp. & Parking	Staff Recruitment and Training			●	●		102
Public Works	Funding of Street Improvements				●	●	80
Public Works	Long-term Capital Projects Funding for Oklahoma River	●			●	●	102
Public Works	Additional Field Services Inspection Personnel		●	●			10
Utilities	Long-term Water Capital	●					82
Utilities	Major Service Contracts Expire in 2016				●		103
Utilities	Cost of Long-Term Solid Waste Disposal				●		103
Utilities ***NEW***	Tinker Water and Wastewater Municipalization			●	●		103
Utilities ***NEW***	Water Conservation Program			●	●		103

HIGHLIGHTED ISSUE

FUNDING OF STREET IMPROVEMENTS

COUNCIL PRIORITY LINK

Develop a Transportation System That Works For All Citizens

Prior to FY10, the annual General Fund budget included a transfer to the Street and Alley Fund for various street improvement projects that supplemented the General Obligation (G.O.) Bond program. Revenue to fund the transfer is no longer available in the General Fund so an alternative funding source needs to be identified to support annual costs for street improvements.

The past transfers funded street improvements that included city-wide base repair contracts, material purchases for micro-resurfacing and chip sealing programs, the annual pavement data collection service contract, and numerous inter-governmental street improvement projects with surrounding counties and municipalities. Previous transfers have ranged from $2.5 million to $8.0 million annually, with an average of approximately $5.0 million.

The transfers were made possible because G.O. Bond interest was deposited in the General Fund. At its peak in FY01, the City's General Fund received nearly $11 million in bond interest. In FY07, City management chose to let G.O. Bond interest remain in the bond funds to be used to supplement those projects. The City continued to provide supplemental funding from the General Fund until FY10 when cutbacks forced elimination of that support. Unfortunately, at the same time, low interest rates have caused a substantial decrease in interest earnings on G.O. Bond funds and this revenue source no longer provides sufficient funding for the types of projects previously supported. When the General Fund experienced strong recovery from the recession, the City Council authorized the transfer of $8 million in fund balance for street and other infrastructure improvements in FY12, FY13 and FY14.

Based on planned maintenance and current material costs, staff believes $5.0 million is needed annually to fund various street programs previously funded through the General Fund transfer. A recurring revenue source, other than the General Fund, needs to be identified to supplement street improvements.

One alternative to General Fund support would be the implementation of impact fees. These fees, charged on new development, are designed to pay for the construction or expansion of infrastructure needs related to growth. Impact fees are used to ensure adequate facilities are available to support new development, to keep taxes down, and to help synchronize development with the installation of new infrastructure. About 60 percent of all cities with over 25,000 residents and almost 40 percent of all metropolitan counties use some form of impact fees. The City's new comprehensive plan, planOKC, currently being updated by the Planning Department, will identify the impacts of development and options for addressing those impacts. One option that will likely be explored is the development of impact fees. While impact fees can only be used on projects that help alleviate the impact of new development, this would help make G.O. Bond dollars go further as they could be used for projects that maintain and improve existing streets.

HIGHLIGHTED ISSUE

IMPLEMENTATION OF COMPREHENSIVE PLAN

COUNCIL PRIORITY LINK
Promote Thriving Neighborhoods

Current Planning needs have been and are anticipated to intensify as development activity in Oklahoma City continues to increase. While development-driven functions increase, the adoption of the new comprehensive plan (expected in early 2015) will likely require significant modifications to the development review process, and changes to codes and subdivision regulations. Although some code revisions can be done by City staff, other revisions will require consultant contracts up to $250,000 annually. Existing staff resources would be responsible for implementing current planning functions of the new comprehensive plan and are housed within both Planning and Development Services. Effective implementation will require clear delineation of roles and responsibilities, cohesive management, and effective coordination.

The new comprehensive plan will also direct further study and focused planning for specific districts, corridors, and sub-areas. Sub-Area planning for areas like Penn Square, Quail Springs, NW Kilpatrick and Wiley Post Airport will assist in guiding sustainable land use patterns that limit impact on the environment and the municipal budget. These initiatives allow the Planning Department to increase business and residential activity throughout the city, coordinate funding for public improvements and services such as schools and libraries, enhance current and establish new services, protect natural resources, and improve the quality of life for citizens.

Not addressing these issues will result in a reduced ability to maximize and grow tax base, the underutilization of existing properties and infrastructure, an inadequate system of public spaces, the reduced connectivity and compatibility of new development, and continued deterioration of commercial districts. If left with existing staffing and resources, we will have to further divide priorities resulting in a lengthier implementation timeline. For more immediate implementation, additional resources over the next five years are conservatively estimated at $300,000 per year for technical expertise and assistance.

HIGHLIGHTED ISSUE

LONG-TERM WATER CAPITAL

Over $171.6 million in improvements are planned for the three water treatment plants over the next five years.

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

Our raw water supply comes from the North Canadian River and Muddy Boggy Creek in Atoka County. Lakes Canton, Atoka, and McGee Creek store water for our use, transported here by the North Canadian River or the Atoka Pipeline. A third water supply, the Kiamichi River at Sardis Lake, has been planned since the 1950's.

Our water utility will make a major investment in water supply and Oklahoma City's future when it constructs a second 100 mile pipeline from Lake Atoka to Lake Stanley Draper beginning in 2016. Design begins in 2015. Staff and consultants continue to develop project schedules phasing construction to maintain competitive pricing and allow partial use of the new pipeline as new sections are completed.

This second pipeline to Atoka will provide adequate raw water supply through 2030. Additional improvements will be needed to transport the new Kiamichi River water supply to Oklahoma City and deliver it to customers meeting growth needs for the next fifty to sixty years.

These significant capital investments will ensure a safe secure water supply for Oklahoma City for generations to come, but the projects will be very costly. The second Atoka Pipeline is estimated to cost more than half a billion dollars. Multiple long-range capital program options were developed for financial planning and the analyses were used in the recently-completed water and wastewater cost of service study.

HIGHLIGHTED ISSUE

MAPS 3 OPERATING COSTS

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

COUNCIL PRIORITY LINK
Enhance Recreation Opportunities and Community Wellness

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

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

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

Senior Health and Wellness Centers. Contractors will operate the Senior Health and Wellness Centers but could include shared maintenance and capital expenses between the City and contractor. The first two of four centers are expected to come online in FY16.

Convention Center. Greater energy efficiency and more usage at the new convention center are expected to limit increases in operating expenses. There could be minimal maintenance costs associated with maintaining both the new convention center and the existing Cox Business Services Convention Center as events transition from one convention center to the other. These expenses could begin in FY19 depending on completion of construction.

Modern Streetcar. The modern streetcar project will be operated by the Central Oklahoma Transit and Parking Authority (COTPA) and will require significant subsidy from the City. The result of the COTPA Alternatives Analysis indicates operating and maintenance costs of the system to be $4.6 million per year, with the Midtown/Downtown/Bricktown segment (the portion funded by MAPS 3) requiring more than 60% of the total cost. Operations are anticipated to begin in FY18.

Downtown Park. The operating and maintenance costs of the Downtown Park will depend on the final programming and management structure chosen. The recently completed Master Plan for the Downtown Park projects operations expenses growing to about $3 million per year when completed. There is the potential to fund some of the operating costs through earned income such as temporary parking, event rentals, café, memberships and philanthropy. There is also the possibility of funding park operations through creation of a parking district and/or a business improvement district. Depending on which revenue options are pursued, up to $1.8 million could be generated from the various sources. Phase I of park construction is scheduled to be complete in spring of 2016; Phase II in Spring 2019, and Phase III complete in Spring of 2021.

HIGHLIGHTED ISSUE

PUBLIC SAFETY RADIO COMMUNICATION SYSTEM

COUNCIL PRIORITY LINK
Provide a Safe and Secure Community

In March of 2000, City voters approved a temporary ½ cent sales tax for police and fire capital equipment projects to run from July 1, 2000 through March 1, 2003. The tax funded a number of public safety capital projects which included a new citywide trunked radio system. While the temporary tax provided funding to purchase this equipment, many components are coming to end of their life cycle and will need replacement over the next few years. Most significantly, many components of the Radio System will no longer be supported by the manufacturer after 2017. The IT Department is currently in contract negotiations for a radio system consultant to review upgrade options, associated cost estimates, and to prepare a Request for Proposals for a new system that will allow phased replacement of the current system and radios.

The City is currently funding $1.7 million in handheld radio replacements each year as radios reach the end of their seven year life cycle. The new replacement radios can operate on both the current system and the newer national standard, known as P25. Public Safety radio end-of-life replacements will be completed in FY16 and non-public safety upgrades will be put on hold until the P25 radio system project is near completion. The annual funding for non-public safety radios will be set aside to accumulate towards off-setting the cost of replacing those radios with P25 capable radios when the final switch to the new system is made. Unfortunately, the estimated accumulation will not be enough to off-set the cost of replacing all of the non-public safety radios. Approximately $10 million will be needed to fund the purchase of public safety and non-public safety radios through FY20.

The most significant cost, however, is the replacement of the system itself – the microwave transmitters, consoles, software, repeaters and other hardware. The replacement cost is about $17 million beyond what can currently be funded.

In total, radio system replacement is expected to cost approximately $27 million on top of annual handheld radio replacement and system maintenance costs currently being incurred. While the MAPS3 Use Tax could be used to fund this project, that would eliminate almost two years worth of public safety fleet replacement funding. One alternative could be financing the purchase of the system in the coming years to spread the cost over a longer term.

HIGHLIGHTED ISSUE

PUBLIC SAFETY SERVICE LEVEL IMPROVEMENTS

COUNCIL PRIORITY LINK
Provide a Safe and Secure Community

Fire. In response to recommendations made in the fire station location study, five new fires stations were recommended. Three of the five stations have been completed and the two additional stations are scheduled to be constructed and opened during the next five years. G.O. Bonds and MAPS 3 Use Tax, with support from the dedicated Fire Sales Tax will fund the capital improvements, fleet and apparatus, but significant support will also be required to fund operations. Each new station will require an additional 21 positions for a total of 42 new positions. Station 29 is scheduled to open in FY16 and Station 38 is scheduled to open in FY19, at which time the total cost of the additional positions is estimated to be $1.9 million annually per station.

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

The study used workload, namely calls for service, to determine recommended staffing levels rather than officers per thousand comparisons. The study recommended additional uniform and civilian positions for the department. The number of uniform positions recommended in the 2013 updated manpower analysis varied from 104 to 195 sworn personnel over the next four years, with the variance in personnel determining whether the fringe areas of the City receive the same response time standards as the urbanized areas of the City. The study did not address the need for enhancing the level of proactive activity in investigative specialty units such as narcotics, vice and traffic enforcement, which would increase the number of officers needed in addition to the recommended levels. The City has been working to address the number of Police positions and has added more than 100 sworn positions since FY13. Additional staffing will be needed in the coming years to effectively meet this demand.

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

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

COUNCIL PRIORITY LINK

Develop a Transportation System That Works For All Citizens

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

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

In recently approved legislation, Congress is requiring transit systems to develop a Transit Asset Management Plan that lays out a strategic and systematic process of operating, maintaining, and improving public transportation assets throughout the life cycle of the asset. In order to adequately maintain transit equipment, regular replacement of aging buses and equipment is needed. The last several bus purchases were made using federal earmarks, G.O. Bond money and ARRA (Stimulus) funds, all of which are no longer available. In the current fiscal year an estimated $7.2 million is needed for the replacement of buses of which $3.7 million is unfunded. Additionally, to continue with further frequency improvements on existing routes additional buses will need to be added to the fleet. At this time there is no funding source for additional buses. In the coming years, discussions of the preferred size and scope of the transit system will drive the type of funding source to be considered and securing a dedicated source of funding would provide the transit system with the stability and funding levels needed to offer a higher level of service than is currently possible because of competing demands on the General Fund. Over the past five years, the General Fund support has been the largest revenue source of the Transit budget.

HIGHLIGHTED ISSUE

RETIREE HEALTH BENEFITS – OPEB

COUNCIL PRIORITY LINK
Maintain Strong Financial Management

The City and its related trusts have a number of potential obligations that stretch out into the future. One of the largest of these future obligations is the practice of funding retiree health benefits, referred to as Other Post-Employment Benefits (OPEB), funded through the Other Post-Employment Benefits Trust (OPEBT). Retiree health insurance is similar to a pension plan, in that, the City funds future benefits after retirement for employees. However, unlike the pension plan, employees have not been required to contribute to the system during their employment, nor has the City fully funded the actuarially determined annual required contribution to achieve full-funding of the liability over time. In addition, the OPEB service requirements to receive benefits are less stringent than the Oklahoma City Employee Retirement System (OCERS) and the fire and police pension plans. The result is that the plan is almost completely unfunded and the OPEBT has a total unfunded liability in excess of $425 million.

Biennially, actuaries estimate the total cost of those obligations and compare that to the funds set aside for that purpose. That estimate is then used to calculate a ratio of how much of the obligation is funded by the current resources available. If the obligation can be fully funded by the current assets committed to that purpose, the obligation is 100% funded. When the ratio is less than 100% there is an unfunded liability. OPEBT's current funding level is 5.8%. Unfunded liabilities in these areas can negatively affect bond ratings and investor opinions about the City, which could ultimately lead to higher borrowing costs.

The General Fund retiree health insurance subsidy directed to the Other Post-Employment Benefits Trust, competes with other General Fund funding demands. Because of the large size of the OPEB liability, there is no single solution that can effectively address the issue. Additional health insurance plan changes, changes in eligibility criteria, and possibly reducing or eliminating the City's contribution to future retirees will be required in the future in order to resolve this issue. Along with these changes, the City is looking for alternatives that help employees deal with the high cost of health insurance in retirement.

AIRPORTS

Maintain and improve existing building systems and aging infrastructure

Some of the Airports building systems and infrastructure at Will Rogers World Airport (WRWA), Wiley Post Airport (WPA), and Clarence E. Page Airport are original and date back to the 1960's. The continued development at the City's airports is beginning to put a strain on infrastructure such as storm drainage systems, building systems, and various pavements. Studies were performed in FY14 to determine the scope of drainage projects over the next five years at WRWA and WPA to accommodate current and future development demands. Those drainage projects identified will be programmed in the next capital improvement program update. Aging building systems and facilities will continue to be evaluated to determine required maintenance, replacement or disposal. A systematic plan will be used to outline a five year restoration program for aircraft ramps and vehicular pavements before they are beyond repair and require complete reconstruction.

Terminal Building Improvements

Air service enhancements such as new non-stop destinations and increasing flight frequency to some cities has resulted in an increase in boarding passengers at Will Rogers World Airport by 3% per year on average from FY11 to FY13. These enhancements along with recent airline mergers and requirements for passenger and baggage screening are affecting passenger flow and circulation in the terminal. The central terminal has some facility constraints that, if not addressed, could negatively affect customer service and convenience. One area requiring further study is to evaluate the benefits of a central security checkpoint and using existing checkpoints for meeter/greeter lounges, eliminating congestion at checkpoint queue and exit lanes. During peak travel times, long ticket counter lines in the terminal lobby can conflict with passenger security checkpoint queue lines that extend beyond the checkpoint queues. The airport has other functional needs such as relocating Airport Police, Airport Operations, and YMCA into the terminal building, and updating way-finding signage and an antiquated audio/visual paging system. There is also a need to create additional administrative office space for Airports staff as well as building lease space for other tenants such as Transportation Security Administration staff.

Construction of a Third Five-Story Parking Garage

Airport staff is tracking the percentage of public garage parking that exceeds 85% of capacity. In FY13 and FY14, parking exceeded 85% capacity by 43.05% and 68.00% respectively. Garage parking between 80% to 84% of capacity in FY13 and FY14 is 24.29% and 13.75% respectively. In the first quarter of FY15, public parking in the garage exceeded 80% of capacity by 92.39%. This increase is partially due to the off-airport parking company taking a direct hit from the May 31, 2013 tornado. More passengers seem to prefer garage parking given Oklahoma City's propensity for severe weather and convenience to the tunnel walkway to enter the terminal. A third parking garage with dedicated vehicle ramps and extending the tunnel walkway is anticipated to require an estimated $25 million in the next 3 – 5 years.

A third parking garage at Will Rogers World Airport, similar to the one pictured above, is anticipated to require an estimated $25 million in the next 3 – 5 years. The construction cost includes extending the tunnel walkway that connects to the terminal.

AUDITOR'S OFFICE

Additional Personnel

Addition of up to three Audit Manager or Senior Auditor positions to provide timely response to programs/operations identified during triennial risk assessments (i.e., internal control weaknesses, areas of exposure to loss, and/or opportunities for improvement).

Contracted Information Systems Audits

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

CITY CLERK'S OFFICE

City-wide Records Management Assessment by Consultant

The city-wide governance of records is of paramount concern to the City Clerk's Office and requires an assessment by a Records Management consultant to identify the following: document formats; document lifecycle; workflow analysis; frequency of document use; rate of document retrieval; document retention; classification and indexing; and space utilization. The lack of a centralized Records Management classification system and procedures manual creates inefficient maintenance of official and transitory records created by City departments. The abundance of electronic records has created a massive amount of data that is unmaintained and presents a security risk. Improper maintenance of paper records is costly due to storage fees, wasted office space, and staff time needed to sift through records to fill Open Record requests. A consultants' report would identify the specific classification and procedural needs of each department, allowing for the establishment of a Records and Information Management program that would benefit all departments. The Archivist will investigate the possibility of obtaining grant funds to pay at minimum one-half of the consultant fee, and will contact sources and consultants to obtain cost information and quotes.

Central Facility for City Records

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

NEW Conversion of Records from Microfilm to Digital Format

The City Clerk's Office has 63 rolls of microfilm that contain 850,500 pages of City Council proceedings dated March 10, 1987 – March 3, 1992. The microfilm is the only copy of these records which remains. The budget of the City Clerk’s Office does not provide for the cost of converting the microfilm to a sustainable digital format. The transfer of these records to a viable format will provide staff access to the records and ensure compliance with retention and the Open Records Act . The digital images will be indexed by City Clerk staff so they can be made available to the public in a timely manner. The addition of these digital records to the City Clerk's record storage will positively impact the Records Management program's output measure and the departmental issue of accessibility of information.

A similar request for CIP funding was approved during the FY13 budget process to digitize the years 1979-1992. It is necessary to request additional funding to complete the project because it was discovered the microfilm contained double the number of anticipated images and all rolls were not scanned.

DEVELOPMENT SERVICES

Improving Live Release Rate

Reaching a 75% live release rate is the top priority for Animal Welfare. While continued improvement has been made toward this goal, it still has not been reached. One of the keys to reaching this goal is lowering animal intakes, and to help achieve that, Development Services would like to expand the community pets spay and neuter program. The Department would also like to implement a High Volume Pet Partner Program modeled after a successful program implemented by the City of San Antonio. By paying high volume rescue groups to take animals over their average annual intake, an additional 19,800 animals were rescued over a two-year period. Several grant-funded positions that are critical to achieving a 75% live release rate will also need funding. These include a part-time Volunteer Coordinator, Adoption Coordinator, Foster Coordinator, Transfer Coordinator, Community Cats Liaison and Veterinarian Assistant. A full-time Veterinarian and Veterinarian Assistant are also needed to provide sterilization surgeries and maintain herd health.

Increased IT Support

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

Code Enforcement Program Support

With changes that include the addition of the Abandoned Buildings Program and the new Action Center mobile app, additional resources will be needed to support the Code Enforcement Line of Business. The most immediate need is for office space to accommodate inspector positions added for the Abandoned Buildings Program. Additional increases in staffing with corresponding increases in services, supplies and equipment may also require financial resources to support programs.

FINANCE

MAPS 3 Operating Costs *(Highlighted Issue – See page 83 for additional information)*

Retiree Health Benefits - OPEB *(Highlighted Issue – See page 87 for additional information)*

Financial Reporting for Unfunded Pension Liabilities

The Government Accounting Standards Board (GASB) has issued a new accounting rule that requires unfunded pension liabilities be recorded in financial statements. This has not been an issue for the City since the Oklahoma City Employee Retirement System is currently 101% funded. However, sworn uniform and fire personnel participate in state pension systems and both systems are less than 100% funded. The City and its employee participants have made the pension contributions required by state law; however, if the City were required to record the state's portion of this unfunded liability in our records the unfunded pension liability would be large and could affect the City's financial statements and possibly our credit rating. Putting both pension systems on better financial footing is important and determining how the liability of the systems would be allocated between the state and municipalities is another question. There are other significant details that will have to be worked out before the true impact of this accounting standard can be fully assessed.

FIRE

Staffing Levels *(Highlighted Issue – See page 85 for additional information)*

Facility Renovations

Renovation of Fire Stations is needed. Damage from deferred repairs can increase the cost of projects and decrease the overall quality of the work and living environment in fire stations. The department is in the process of assessing all facility needs. MA+ has been contracted with to examine each location and prioritize future repairs as well as provide an estimated cost at each location. When completed, it is expected the overall need to fund renovations could be significant.

Two new fire stations will require a total of 42 new positions (21 positions per station) at an estimated cost of $3.6 annually in FY19.

Public Safety Fleet *(Highlighted Issue – See page 85 for additional information)*

GENERAL SERVICES

Americans with Disabilities (ADA) Compliance

The passage of the 2010 Design Standards for ADA compliance greatly expanded the specific requirements for compliance by state and local governments. Items not previously covered that affect the City include golf facilities, swimming pools, recreational boating facilities, fishing piers and platforms, and play areas. The ***standards were to be met by March 15, 2012 for all existing*** as well as new facilities. Recent federal court cases confirm the obligation of the City to include accessible spaces when providing on-street parking. The 2010 ADA standards also address the accessibility of websites, accessible furniture and equipment, and the ability of 9-1-1 call centers to take text and video calls, as well as TTY and State Relay Calls.

Facility Asset Management

Industry standard for square feet maintained per Full-time Equivalent (FTE) is 60,000, excluding supervisors. General Services' employees, excluding supervisors, are currently maintaining 74,124 square feet of building space per FTE. The problem is compounded by the number of facilities/sites (249) in an area covering approximately 621 square miles. The portfolio of properties serviced by General Services continues to grow at a greater rate than the number of FTE to maintain them. Industry research shows that preventative maintenance is 12% to 18% more expensive than predictive maintenance. General Services is trying to move from preventative maintenance to the more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Five additional licensed trades people are needed to accomplish predictive maintenance and eventually eliminate deferred maintenance in the city facilities currently maintained and the new facilities already scheduled for construction.

Fleet Services

The average age of the general fleet has the potential to become an issue during the next five years. Aging vehicles require more maintenance, which means they are out of service more often and cost more to operate. When vehicles are out of service, the functions they support cannot be carried out, resulting in lower levels of service to citizens. In FY14, 94.3% of budgeted vehicles and equipment were available for use. Staff will continue to monitor the strategic fleet replacement plan and perform annual fleet utilization studies to ensure vehicles and equipment are available for use.

INFORMATION TECHNOLOGY

Public Safety Communications System *(Highlighted Issue – See page 84 for additional information)*

Primary Data Center

The primary data center must be designed with disasters in mind as it is a critical component to city operations and financial stability. The current location on the top floor of 100 N Walker does not meet requirements for a critical data center and is a significant vulnerability issue for the City. Plans and specifications for a new primary data center are being developed by JHBR Architects. Initial construction estimates came in higher than original engineering estimates for construction and equipment (Phase I and II) resulting in the project funding being short an estimated $547,861.

Primary Data Center		
Phase I	Building Construction	$1,275,000
Phase II	Data Center Equipment	$1,800,000
Phase III	Network, Server and Storage Systems	$800,000
	Total Project Cost	**$3,875,000**
	Amount Unfunded	*$547,861*

The new data center will be constructed at the Central Maintenance Facility, SW 15th and Portland, which will physically separate it from the backup data center. Phase I will include construction of a hardened building that is resistant to natural disasters, such as an F5 tornado, the most common threat in this region. Phase II will be installation of electrical, cooling and data equipment, and Phase III will be installation of Network, Server and Storage Systems. The center will be constructed to follow industry standards for a Tier 3 data center, meaning it will have redundant components, dual-powered equipment and multiple uplinks. It will also ensure data from the hardware is available 99.982% of the time. Energy efficiency will be a significant focus in the design of the new facility. It will be a lights out data center meaning that no support staff will office in the facility. Further, staff anticipates reducing cooling requirements by running the facility at over 80°F in the main server room based on the reduced cooling requirements of modern equipment.

FY18 PeopleSoft Major Upgrade

The next required major upgrade to most current version of PeopleSoft HCM, FMS, and Portal is expected in FY18 at estimated cost of $2,000,000 which is currently unfunded. The last major upgrade to version 9.2 was completed in FY14. Support for this version is expected to expire in March 2018 and customers generally have six months to complete the upgrade. The strategy has been to only perform major upgrades as required to maintain system stability and control costs. Upgrades require external contracted resources.

MUNICIPAL COUNSELOR'S OFFICE

Reorganization, Re-Classification and Increase of Staffing Levels

Due to increasing client needs in new projects, emerging and complex areas of law, labor and employment issues and economic development programs, the Municipal Counselor's Office has committed more attorneys to focus on specific areas and spread other attorney resources more thinly to guard against gaps in service in more traditional areas of municipal law. To maintain the same level of quality service, the Municipal Counselor's Office has begun a restructuring of the organization and will need to re-classify certain positions that are currently under-classified for the level of service provision. The Personnel Department is being consulted regarding pay plan modifications to address those issues and future recruitment and retention. Reclassifications and pay plan modifications would initially involve approximately 14 positions at an estimated cost of less than $30,000.

In addition, three new staff positions are needed: an Assistant Municipal Counselor II in the Criminal Justice Line of Business to address new and recent programs in the Police Department, an Assistant Municipal Counselor I in the Labor and Employment Legal Services Line of Business and, one full-time Legal Secretary in the Criminal Justice Line of Business (the number of full-time Legal Secretaries in Criminal Justice has been reduced from 6 to 4.5 over the last several years) at an approximate total cost of $215,041, for all three positions, including benefits.

Increasing Operational Expenses

Certain operational expenses, particularly research resources, litigation/court costs and office supplies, continue to increase annually at an estimated cost of $13,200 and may fluctuate from year to year. Furniture for three conference rooms is aging and in need of replacement costing less than $20,000. Office copiers and scanners will be in need of replacement over the next few years at a projected cost of approximately $132,435.

Additionally, the Municipal Counselor's attorney staff needs mobile phones that will also sync with work email accounts and calendars. The initial purchase of phones for 31 attorneys will be approximately $3100. Annual operating costs, including cell phone data plans would be approximately $40,000 per year.

Laptops for Criminal Justice

Laptop computers for Criminal Justice remain on the CIP proposal at an estimated cost of $18,500; however, that request continues to be a low priority until the electronic citation conversion is nearer to completion.

MUNICIPAL COURT

Loss of public, employee and Civic Center event parking at the Municipal Court

For over ten years, the Municipal Court leased two parking lots adjacent to the Court from OCURA, and contracted with COTPA to manage them. The lots provided 300 parking spaces for patrons and employees of the Municipal Court, Municipal Counselor, and Civic Center. Approximately two hundred parking spaces were available for Municipal Court patrons, attorneys, and jurors.

The new Municipal Court Building will soon be constructed on one of these parking lots, and private development is expected to begin shortly on the other lot. A parking lot east of Lee Avenue and south of Main Street has been leased from a private company on an annual basis for Municipal Court and Municipal Counselor employees. In the near future, there will be no off-street parking near the courthouse for patrons.
Court attendees will have to either park on the street or find a space in a pay lot far from the courthouse. Currently there is no identified solution to address the parking issue for court patrons. In addition, the lease for the lot for employees could be terminated at anytime, depending on the needs of the private owner. A lease cancellation would cause Municipal Court and Municipal Counselor employees to also be without a place to park. The annual financial impact of this issue is expected to be less than $250,000.

Properly Equipping New Court Facility

Funds have been allocated to construct a new Court Facility. Upon completion, the project may require supplemental funding for fixtures, furnishings and technological equipment to ensure the facility is properly outfitted to operate a high volume Court. If not adequately addressed, the new facility will face loss of productivity and reduced efficiencies. An additional $500,000 to $1,500,000 in one-time capital costs may be needed to property equip the new court facility.

Possible Relocation of the County Jail

The Oklahoma County Jail remodel/rebuild discussions have been a continuing source of concern for Oklahoma City Municipal Court. City prisoners are housed in the Oklahoma County Jail and are regularly transported, by walking, to and from the Municipal Court by the City Marshals. If the jail is moved from its current location, across the street from the Municipal Court, additional funding estimated at less than $250,000 annually will be necessary. The Marshals will be required to transport prisoners from the County Jail to the Municipal Court using vehicles. It may be possible to purchase additional audio-video equipment and reduce the frequency of vehicle transfers by conducting additional court events via a secure video link. Additional funding will be required if the County Jail is relocated and the amount of funds required will depend upon the distance between the County Jail and the Municipal Court.

OFFICE OF SUSTAINABILITY

NEW Utility Rates Set to Increase

Both water and electric utility providers have indicated rate increases. Water increases went into effect October 1, 2014 and will automatically increase each October for the next three years. Oklahoma Gas and Electric (OGE) has proposed a $1.1 billion plan to make modifications to three power generation plants in order to bring them into compliance with new regional haze guidelines established by the Environmental Protection Agency (EPA). OGE plans to pass this project cost onto customers and these rate increases, from 9 to 19%, will significantly impact the City of Oklahoma City in its budgeting for utility expenses. As pumping and treating water is the most energy-intensive function of the City, continuing to expand our water conservation efforts will contribute to reducing pumping/treatment demand and associated electrical consumption.

The cost of utility rate increases to the General Fund alone are estimated at $0.5 million by FY17; to minimize major impacts, the City should make water conservation and energy efficiency efforts a top priority in the coming years and establish a stringent, on-going energy management program.

Weather Impacts to City Services

The changing weather, extreme temperatures, prolonged drought, and other severe weather patterns will continue to increase occurrences of utility service disruptions, major flooding events, and storm debris clean-up. Negative impacts to City services resulting from a changing climate may include: increased pavement degradation, increased water main breaks, economic impacts to the agricultural sector, fluctuations in fuel, salt, and sand supply demands, increased slope erosion, increased water demand, increased heating degree days or cooling degree days resulting in additional wear and tear on equipment and higher energy consumption for City operations.

Related to disaster recovery, a detailed recovery plan should be in place prior to a major weather event to ensure the City's response is prompt, but does not overlook environmental concerns. In most cases, a majority of storm debris can be diverted from landfills and recycled, and on-site renewable energy generation can restore power to critical City functions in the event of a grid outage.

NEW Waste Diversion

Landfill capacity is declining while disposal costs are increasing. To help address this issue, the City could initiate several strategies to increase the amount of waste and recyclable materials diverted from landfills to help curb the negative ramifications of increasing customer costs and the volume and potency of gases released from these sites. Possible strategies include:

1. Expanding the types of materials collected via the curbside recycling program to include more materials, such as organics and yard waste;
2. Offering collection receptacles that are larger and easier to move to increase participation in curbside program;
3. Developing a commercial buildings recycling program and/or incentives;
4. Incorporating programs to address both source reduction and post-consumer waste streams;
5. Establishing a recycling requirement for beverage containers in businesses applying for new ABC permits;
6. Creating a new public information campaign with a wider target audience to communicate the changes to the curbside program and benefits of using less and recycling more;
7. Requiring a percentage diversion rate for all City construction projects;
8. Further supporting zero-waste initiatives and events similar to the Arts Festival's Go Green zero-landfill initiative through policy changes;
9. Fostering partnerships to maximize energy recovery from waste opportunities; and
10. Increasing City purchases of products with pre- and post-consumer recycled materials to further support recycling and promote responsible materials management.

PARKS AND RECREATION

Parks Facilities

The Parks and Recreation Department is committed to providing quality recreational opportunities to promote healthy living. To provide convenient and attractive options for citizens, our parks and recreations facilities must be well maintained and provide a wide variety of recreational offerings that appeal to all of our citizens. Many of the City's (17) recreation centers, aquatic facilities, gardens and senior centers are in immediate need of improvements and have limited programmable space and usability that meet current recreation and wellness trends. Replacement of several existing facilities with four distinct multi-generational health/wellness/recreation centers (with indoor aquatic facilities) will allow the department to meet the needs of citizenry. The four multi-generational health/wellness/recreation centers with indoor aquatic facilities will accomplish the following in the community: (1) modernize our current facilities, (2) give computer access to users for registration; thus increasing revenues, (3) update technology/security to current standards in the industry, (4) focus on quality programming and revenue generation/mechanisms, (5) immediately improve maintenance and level of service delivery for our user groups, (6) increase the ability to reach under-served populations, (7) increase active adult participation in program offerings, and (8) attract and retain the youth/teen segment of the population with 21st century facilities/amenities/technology in the delivery of parks and recreation services. The multi-generational health/wellness/recreation centers will complement the MAPS 3 Senior Health and Wellness Centers and allow us to take it to the next level to serve populations of all ages. From acquainting our young with healthy eating practices and exercise - to millennials needing an active healthy lifestyle - to a growing population of 60+ who also need additional locations to "get their health on", these centers will promote quality recreational opportunities and healthy living.

Operating Partnerships, Collaborations, and Funding

The Parks and Recreation Department is currently responsible for the oversight of over 7,000 acres of parks, green space, trails and lake recreation areas, the Oklahoma River and Bricktown Canal, center medians, and State highway right-of-ways. The continued development and completion of capital projects from MAPS 3, Project 180, Downtown Boulevard, Core-to-Shore development, and Convention Center will result in new and more frequent maintenance of parks, green space, athletic fields, gardens, trails, and streetscapes that will require significant new resources to maintain them. Identifying opportunities for partnerships, collaborations, and funding to meet the level of service/needs for these amenities are vital to ensure the expectations of the citizens and visitors to our city are being met.

Improvements to Civic Center Music Hall

The Civic Center Music Hall is entering its 15th year since the facility was partially renovated through the original MAPS Project. A recently completed Utilization Study evaluated the spaces not included in the original MAPS project. The study recommended significant facility enhancements, replacement of aging equipment, and repairs required to maintain the 77 year old facility. The study recommended improvements over five phases at an estimated cost of $44.5 million and is not currently funded. To maintain a first class performing arts center, funds will need to be identified to complete recommended improvements and replace amenities from the original building project in 1935.

PERSONNEL

Retiree Health Benefits - OPEB *(Highlighted Issue – See page 87 for additional information)*

Health Care Reform

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

The Act also mandates certain implementation requirements regarding essential benefit coverage, insurance exchanges, prevention and wellness incentives, automatic enrollment, consumer protections, notices and disclosures, increase to Medicare payroll withholding, and payroll reporting.

Occupational Health Clinic

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

The Occupational Health Clinic needs to replace various pieces of equipment used to medically evaluate applicants and incumbents for vision, hearing, pulmonary function, treadmill, etc. The cardiac treadmill is more than 13 years old, and has needed parts replaced over the years. To avoid future costly repairs and interruption of medical services, it is recommended that the cardiac treadmill be replaced within the next two to three years. Equipment failures can cause tests to be repeated and slow the hiring process.

The City's Occupational Health Clinic also has to maintain a medical file on every City employee who is evaluated by the clinic. Medical files must be maintained for a longer period of time than non-medical files. As a result, additional storage will need to be acquired within the next five (5) years, or an electronic filing system purchased. Because all medical records are moving to an electronic system, this solution would be extremely beneficial as it would enable the City to communicate with any medical provider outside the City of Oklahoma City.

Employee Medical Clinic

In October 2014, the City Council approved the opening of an employee medical clinic through a contract with CareATC. The clinic is expected to open in early 2015 and will provide non job-related primary care services to employees and non-Medicare eligible retirees, in support of the City's wellness initiative and effort to control the cost of the health insurance plans. It is expected that if employees/non-Medicare retirees utilize the lower cost employee medical clinic for primary care-related services instead of the more costly health insurance plans, significant savings will be experienced over time. The estimated cost for the employee medical clinic is $1.3 million annually. To further support the City's overall wellness initiative, the City should be prepared to fund a health and wellness champion position to support non-clinic provided wellness initiatives. Responsibilities of a health and wellness champion would be to develop educational programming, implement wellness programs and events, conduct on-site training, and analyze wellness metrics.

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

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

Due to the Personnel Department's limited staff and the scope of the project, a professional consultant will need to be retained.

PLANNING

Neighborhood Revitalization Projects and Initiatives

Between 2010 and 2013, federal formula grant funding allocated to the City through the Department of Housing and Urban Development (HUD) has been reduced by 27.3% in aggregate. Funding through Community Development Block Grants and the HOME Investment Partnership Program has been reduced by 22.7% and 45.1% respectively. This funding supports numerous community development and neighborhood revitalization projects around the city, including housing rehabilitation, down payment assistance, affordable housing, infrastructure, Brownfield remediation and homeless programs. It is also used to support 22 fully grant funded and 1 partially funded positions within the Planning Department.

The impact to staff positions is particularly acute. In the past, the Planning Department has been able to utilize special but term-limited programs to cover the funding gap between staffing needs and available sources. The most recent examples are the Neighborhood Stabilization Program (NSP), now defunct, and the Disaster Recovery (CDBG-DR), which is just starting and will run for approximately four years. The transition between these special programs in addition to declining federal funding has resulted in gaps that need to be addressed immediately, as well as long term.

For example, the existing need for HOME dollars to fund staff salary is estimated to be $452,443. For FY15, the Planning Department has $457,779 in HOME administration funds to allocate to staff salaries and overhead. Nine staff members are fully or partially funded with HOME grant funds. $263,985 of the $457,779 (57%) is "rollover" from the previous year. This means that once spent in FY15, it is no longer available to use for next year. Once spent, the Planning Department will have a HOME administration budget of $214,900, allocated below. This leaves a budget shortfall of $242,879 that will need to be filled, assuming that we do not receive a cut in HOME funds from HUD.

- Admin (10% of $1,842,994) = $184,294
- Rollover = $ 21,106
- Program Income = $ 9,500 (assumed same as previous year)

Next year, some or most of this shortfall can be made up with CDBG-DR funds, which will be active over the next four years. These funds are merely a short term "stop-gap" measure; it will not solve the long-term issue.

A reduction in federal funding is expected to continue, leaving the Planning Department with an additional shortage of funds to cover personnel expenses. Staffing capacity is already at critically low levels due to the efforts of the department to expand programs, such as the Strong Neighborhood Initiative and support for the Abandoned Buildings Coalition, to meet Council priorities related to promoting thriving neighborhoods. If we are to continue delivering grant funded programs to the community, position salaries will need to be transitioned to the General Fund starting in FY16. If General Funds are not provided, specific grant funded programs will have to be discontinued and administrative staff ultimately reduced or reassigned.

In addition to personnel issues, this decline in funding will have a tangible impact on the ability of the department to sustain current initiatives, let alone the ability to meet a growing demand in neighborhood revitalization services. CDBG and HOME funding is one of the primary investment tools the City has to conduct revitalization activities. Decline or loss of this funding without replacement would remove any real tools the City has to address the Council priority. Additionally, reallocation of assets without replacement has and will continue to negatively affect the City's ability to compete for additional grant funding.

The need for housing rehabilitation and affordable housing development continues to increase as federal funding is reduced. These resources must be replaced and ultimately increased to address the growing problem. The diminishing funding issue holds true for the need to improve infrastructure and to incubate partnerships with schools, neighborhood associations and other nonprofits to provide needed services to help reverse neighborhood decline holistically/systematically. Local funding of $1,000,000 per year is necessary to minimally address housing improvements, with another $500,000 needed to support neighborhood based infrastructure improvements.

Implementation of Comprehensive Plan *(Highlighted Issue – See page 81 for additional information)*

Urban Commercial Districts and Neighborhoods

Focused initiatives to address corridors and commercial areas like MLK Avenue, Uptown/23rd, I-240, Stockyards, Capitol Hill and SW 29th will help coordinate infrastructure and community development investment that leads to enhanced commercial activity and sales tax generation. Ongoing outreach with commercial districts and urban neighborhoods, combined with the completion of the Comprehensive Plan, will drive additional demand for planning services and initiatives that target economic development and revitalization outcomes. These services will help continue the momentum of urban revitalization and engage with neighborhoods that desire strategic planning and the ability to organize on a local level.

The Commercial District Revitalization Program (CDRP), which supports districts like Paseo, Plaza, Western Avenue and Windsor, has seen increased demand from the community for its services, inclusive of organizational capacity funding and technical assistance. Coordinated investment in organization building, infrastructure, and small business development can yield significant return on investment to the municipal budget, yet existing resources are extremely limited to serve both existing and future demand. Additional resources over the next five years are estimated at $300,000 for financial assistance and small business development within the districts. These resources would be added to the existing budget of approximately $315,000.

Program	Positions		Consultants / Program Investments / Capital Improvements		Total
Community Development & Neighborhood Revitalization					
Strong Neighborhoods Initiative	Senior Planner (existing) Assistant Planner (existing)	$117,465 $69,835	Neighborhood infrastructure improvements and housing	$1,500,000	$1,687,300
Implementation of Comprehensive Plan					
Current Planning			Revisions to codes, ordinances, subdivision regulations	$250,000	$250,000
Focused Plans/Studies			Special area plans and technical assistance	$300,000	$300,000
Program Support for Urban Commercial Districts and Neighborhoods					
CDRP			Financial assistance and small business development	$300,000	$300,000

Figure 1 - *Summary of needs to address three key financial issues for the Planning Department*

POLICE

Police Staffing Levels *(Highlighted Issue – See page 85 for additional information)*

Fleet and Equipment Replacement *(Highlighted Issue – See page 85 for additional information)*

Technology Equipment Maintenance and Replacement

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

NEW Body Worn Video and Audio Recording Devices

The Oklahoma City Police Department is in the process of developing a pilot program to outfit 100 field officers with body worn cameras as a tool to document contacts with the public. The cameras will capture video and audio recordings, which provide unbiased documentation/evidence of law enforcement activities including traffic stops, public contacts, emergency responses and critical incidents. Use of these recordings may increase the level of detail in police department records, reports and employee testimony, as well as provide valuable information for prosecutors, defense attorneys and judges to use in court.

Body worn video and audio recording devices, similar to the one pictured above, could cost $3.8 million over five years for 700 devices, hardware, digital storage, licensing and four civilian digital evidence management personnel.

The Police Department has conducted extensive research in how other law enforcement agencies have implemented body worn camera programs. They have reviewed recommendations by the Police Executive Research Forum and have compiled numerous policies and procedures from other law enforcement agencies. They have also reviewed the model policy by the International Association of Chiefs of Police and the recommendations from the American Civil Liberties Union.

The Police Department is currently preparing a Request for Proposal (RFP). A component of the RFP will be a 30 day wear test of selected camera systems. This will allow the department to evaluate how the camera systems and components perform in field use, prior to recommending a final vendor.

The Police Department has also created a working group of police officers, including members of the Fraternal Order of Police to help develop the department's policies and procedures. This group of officers will also be used to conduct the wear test previously mentioned as part of the RFP. The Police Department is also working with several representatives of the Municipal Counselor's Office to address legal issues with this project. At the appropriate point, the Police Department will meet with representatives of the relevant District Attorney's Offices to coordinate how this program will impact their operations.

Based on the extensive research and effort that has gone into this project, it is clear additional personnel will be needed in the Police Department to successfully manage the system. The Police Department will need to hire two civilian employees for the Data Systems Unit to maintain the cameras, software, hardware and licensing. The department will also need to hire two civilian employees for the Digital Evidence Management Unit, who will be responsible for managing the recordings for evidentiary and open record requests.

Upon selection of a camera system and provided funding is available, additional cameras may be phased in over the next five years. If fully deployed, the Police Department could need up to 700 cameras to accommodate all field personnel where the use of a body worn camera would be appropriate.

The purchase of cameras, licenses, storage and additional personnel could cost the City as much as $3.8 million over the next five years, if fully deployed. However, as the public demands more openness and transparency in their public safety agencies, body worn cameras provide a mechanism to document interactions with the public in an unbiased manner. The use of body worn cameras can also help protect officers from unsubstantiated complaints or allegations of misconduct, as well as protect the City from frivolous tort claims or lawsuits.

Facility Relocation, Maintenance and Repair

There are a number of key police facilities that will need to be relocated in the future. These include the Air Support Unit, Firing Range and Training Center. Eleven police facilities have been identified with ADA barriers that need to be addressed, some of which will require extensive renovation for Americans with Disabilities Act (ADA) compliance and energy conservation.

PUBLIC INFORMATION AND MARKETING

Citizen and Employee Engagement

More effective communications with the public continues to be one of the top ten City services residents feel should receive the most emphasis over the next two years. Oklahoma City's diverse groups of residents and employees have the common growing need for city government information and the ability to provide input on issues that concern them. Engaging residents and employees is a trending practice for local governments and one that requires a more aggressive use of evolving communication technologies.

Although Oklahoma City residents can get information about City government from the water bill newsletter, okc.gov and Channel 20, they see a need for better communications. They want more information and better interaction with City government. Technology is not only one of the most effective platforms for citizen engagement, it also makes it easier and more convenient for residents to get involved. When presented with new opportunities to engage, they do so. The response to our recent launch of the OKC Gov mobile app clearly indicates this. Effectively using other engagement methods such as electronic networks, public meetings, participatory processes and focus groups help get residents and employees more involved, informed and engaged.

Aging Video Equipment

Television and video are two of our most effective communications tools. In addition to City Council, we broadcast other public meetings and City programs to more than 128,000 Cox Cable households and produce programming in our studio and videos that we regularly post on YouTube and other social media. Citizen survey results show 14% of citizens identified City Channel 20 and 13% identified social media as sources for City news and information.

Technology has not only changed the way we communicate with citizens, it has also changed the equipment we need to broadcast and produce video. Over the years, keeping up with changing technology has been a challenge. Equipment purchases and upgrades have only been made to replace broken or obsolete equipment and as funds allowed. However, to continue to effectively use this communication media, an ongoing program to invest in new equipment and technology is needed. Long-term capital needs include scheduled equipment upgrades and replacement for cameras, microphones, tripods, lighting, computers, tripods, set upgrades, digital playback servers, control room equipment and video storage.

Public Events Management

Well managed public events are important to a vibrant community. They are a quality of life issue that not only contributes to our city's social fabric, but also the local economy. Citizen survey results tell us it is the number one area citizens want to receive more information. That comes as no surprise since the number of walks, runs, parades, festivals and other community events in Oklahoma City continues to grow in both size and frequency. This growth requires us to not only dedicate more City resources but also better manage them by modifying our processes, policies and ordinances.

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

PUBLIC TRANSPORTATION AND PARKING

Public Transportation System Enhancements *(Highlighted Issue – See page 86 for additional information)*

Asset Retention and Replacement

As current buses, transit facilities and parking garages age, appropriate maintenance activity and funding will be required to keep these assets in a state of good repair. Reduced federal funding for bus replacements and facilities upgrade/rehabilitation will place further pressure on being able to retain assets in a safe and acceptable manner.

Staff recruitment and training

Being able to recruit, retain and train personnel to conduct the day to day operations of the department is critical for long term effectiveness. Frequently changing federal transportation requirements, technological improvements within the industry and developing replacement personnel for an aging work force will require adequate operational funding.

PUBLIC WORKS

Funding of Street Improvements *(Highlighted Issue – See page 80 for additional information)*

Long-term Capital Projects Funding for Oklahoma River

The three Oklahoma River dams are now more than a decade old. During the current fiscal year, the Public Works Department has expended significant resources to repair and rehabilitate hydraulic cylinders on four crest gates and the downstream lock on the May Avenue dam. Significant capital projects that need to be addressed include structural repairs at each dam ($500,000), sedimentation basin sheet piling rehabilitation ($800,000) and construction of the river maintenance facility operations building ($400,000) at Exchange Avenue.

The projects listed above will be funded by the Stormwater Drainage Utility as funds are available. As additional development occurs along the river corridor, alternate funding sources may need to be established to help maintain the necessary river-related capital improvements.

Additional Field Services Inspection Personnel

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

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

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

UTILITIES

Long Term Water Capital *(Highlighted Issue – See page 82 for additional information)*

Major Contracts Expire in 2016

Wastewater treatment operations and services are provided by corporations with long-term service agreements. The contracts total more than $30,000,000 annually and expire in 2016. Seeking new proposals helps the contracts remain well-priced and provides a fresh opportunity to consider service enhancements and adjustments. New service proposals can result in cost increases or decreases.

Cost of Long-Term Solid Waste Disposal

Central Oklahoma's capacity for solid waste disposal is decreasing. A study is underway to plan for long term solid waste disposal methods well in advance of need. We can expect landfill disposal costs, currently approximately $20 a ton totaling $5,000,000 a year, to grow as landfill capacity declines. While operating costs are not expected to increase outside normal ranges in the next five years, completing the plan and deliberating a course of action in the next 12 months will help assure measured customer cost changes.

NEW Tinker Water and Wastewater Municipalization

For several years the United States Government has been contracting for services from local utilities where those utilities were once operated and maintained by the United States Government. The United States Government has offered our utility the opportunity to propose operation of Tinker Air Force Base's water and wastewater utilities. Developing a fair proposal meeting all of the United States Government's rules for its own operations is complex. Staff and consultant resources will be required over the next two years to propose fair low-risk pricing, contract for, and start-up service in this large area should the proposal be accepted by the United States Government.

NEW Water Conservation Program

Communities suffering severe long term drought, notably the Colorado River Basin and most of California, have been required to enforce severe water conservation measures and incurred unexpectedly large loss of water utility revenue. The recently-completed water and wastewater cost of service study addressed this issue with a cautious two-tier rate plan including assumptions for reductions in water use. A review is scheduled in two years to recommend adjustments, if any, to the tiered rated plan, based on experience with the conservation program.

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

SECTION 6

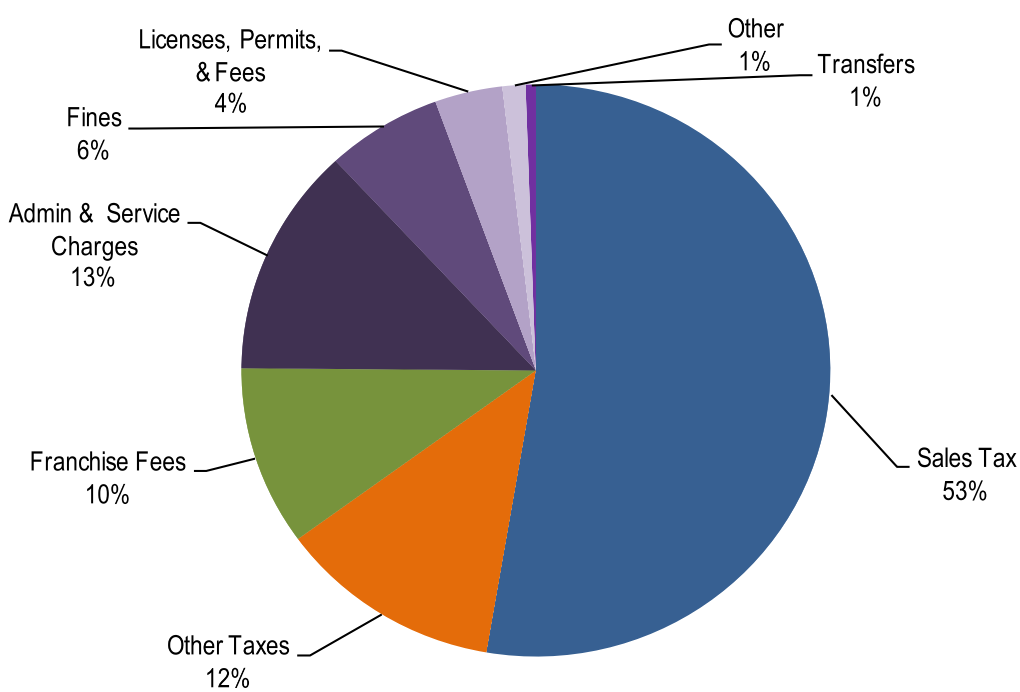
GENERAL FUND REVENUE TRENDS AND FORECASTS

Revenue Overview

The General Fund is supported by a wide array of revenue sources. In fact, there are literally hundreds of individual revenue sources that contribute to the General Fund. These sources are combined into similar categories and shown in the graph below.

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

FY15 Adopted General Fund Revenue Budget
$415,048,224



Sales Tax. Outdoor social events can enhance sales tax collections and Oklahoma City has become home to one of America's largest food truck events. The last Friday of each month in the spring, the area around Hudson and 8th in Midtown turns into H&8th, drawing crowds of more than 20,000 to each event to enjoy food, music, and a variety of activities, such as bike racing, pictured at left.

Sales Tax

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

The City levies a total of 3.875% in sales tax. Combined with the state levy of 4.5%, the total state and municipal sales tax rate charged within corporate Oklahoma City limits is 8.375%. Canadian County assesses an additional levy of 0.35% for purchases made within their jurisdiction. Pottawatomie County assesses an additional 1.00% sales tax levy.

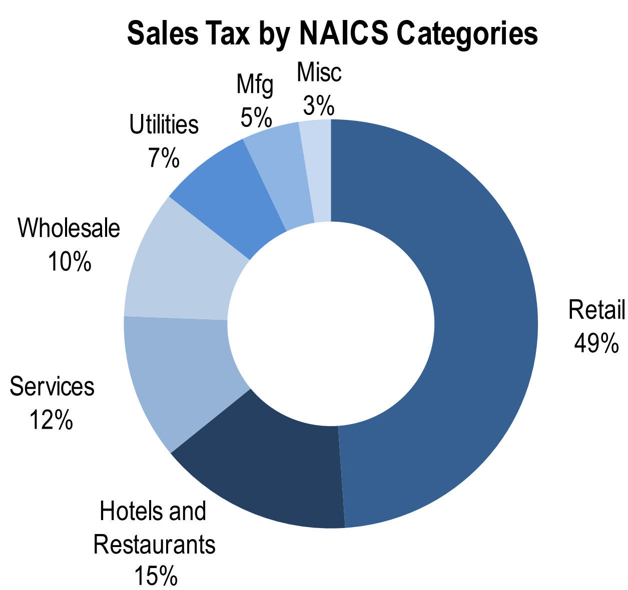
While the City receives the 3.875% sales tax levy, only **2% goes to the General Fund**. The remaining portion is divided between various dedicated funds as follows:

- **1% for the MAPS 3 Sales Tax.** This temporary tax is in effect through December 31, 2017, and is slated to fund capital improvements designed to boost economic development and improve the quality of life in Oklahoma City.
- **0.75% for the Public Safety Sales Tax**. This tax is split evenly between Police and Fire and is permanent.
- **0.125% is for the Zoo Sales Tax**, which can be used for capital improvements and operations at the Zoo. The Zoo Sales Tax is permanent.

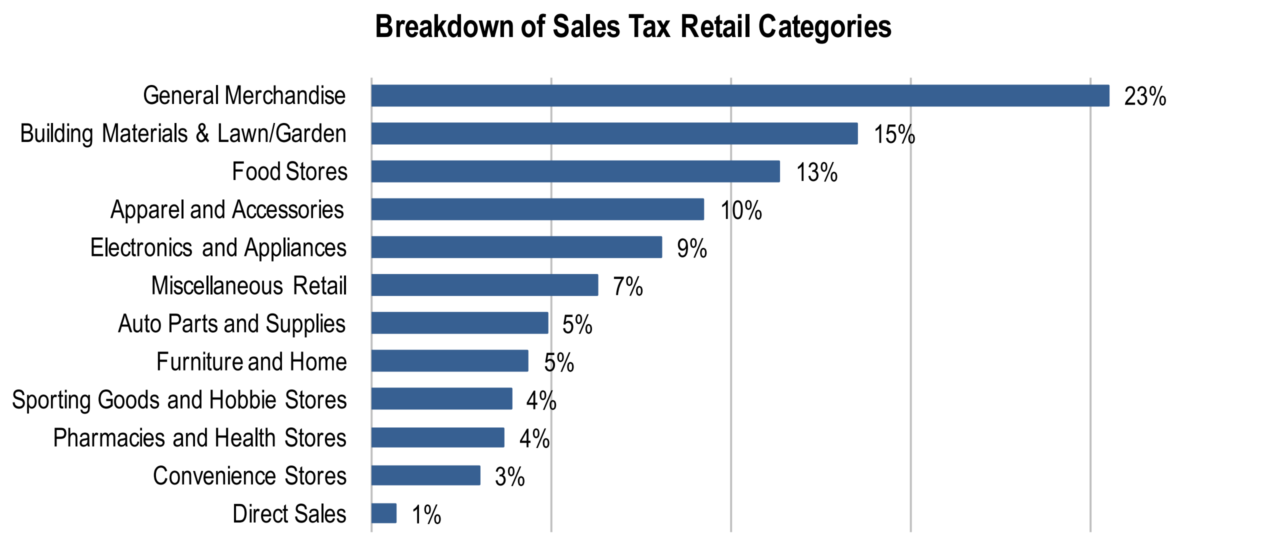
Sales Tax Revenue by North American Industry Classification System (NAICS)

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

The following chart illustrates the most significant sectors of Oklahoma City's sales tax base for the first six months of FY15, ending with the sales tax check received in December 2014. As shown, the retail sector represents almost half of all taxable sales.



Because retail is such a large piece of sales tax, special attention is paid to the components within retail. The NAICS system provides further division within the major groups to allow a finer look at the data. The chart below shows the various subcategories within the retail sector for the six months of FY15.



One limitation of the NAICS system is that a business can only be classified in one category even if the business sells multiple types of goods. For example, the sales tax from Walmart on groceries is shown as sales tax from the General Merchandise category rather than Food Stores because Walmart is considered a General Merchandise retailer. Likewise, the sales tax on a pair of jeans purchased from Academy Sports would show under Sporting Goods rather than Apparel and Accessories because of the way Academy is classified overall.

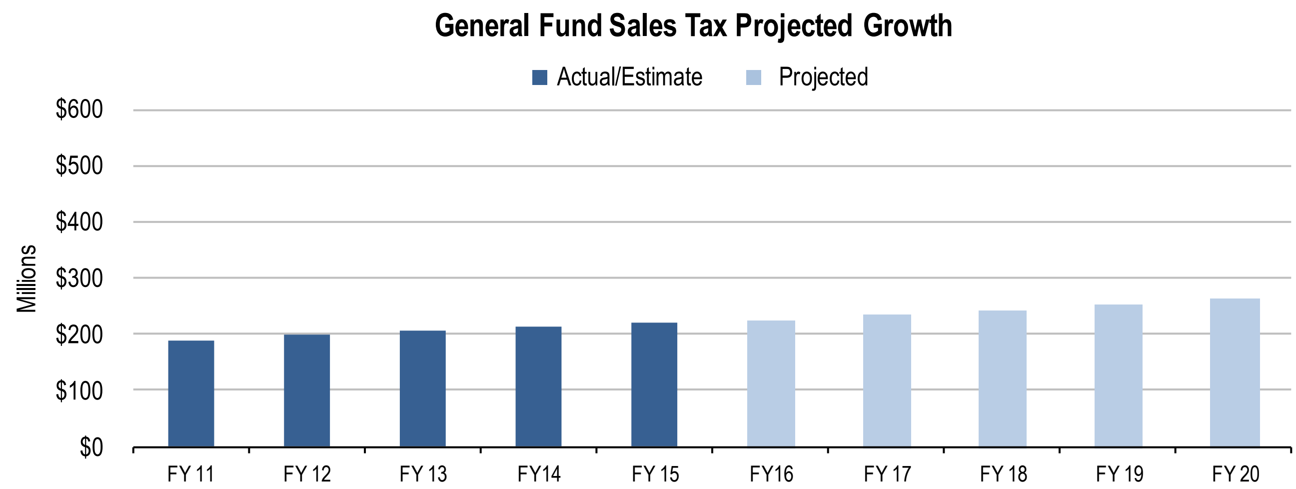
The mix of retail activity shifts gradually over time due to changes in retailing (such as the growth of the superstore), consumer tastes (such as eating out more often), and tax law changes (such as the change from taxing cigarettes through Sales Tax to excise taxes in 2004). Whatever the reasons for the changes, monitoring and understanding retail sales are critical to the financial health of Oklahoma City. The City Treasurer's Office prepares a monthly sales and use tax collection report each month highlighting their analysis of tax collections and trends that are emerging.

Sales Tax Revenue Forecast

The uncertainty in the economy makes projecting sales tax a challenging task. How will the national economy perform and how will the Oklahoma economy be impacted by low oil prices? For Oklahomans, extremely low natural gas and oil prices are a concern as those prices result in lower exploration and production (E&P) activity; however, there is underlying strength in the Oklahoma City economy that gives the economy positive momentum. Will they offset each other or will one have a bigger impact on our local economy than the other? These questions make forecasting next year's sales tax a real challenge.

Part of the Economic Forecast developed by Dr. Russell Evans, Economist at Oklahoma City University, was an estimate of taxable retail sales. That estimate was used to inform the projection for sales tax growth for the remainder of FY15 and for FY16. Based on those forecasts and our long-term average, **sales tax growth for FY15 is expected to be 3.30%,** which is above the fiscal year target of 2.8%. **In FY16, Sales Tax growth is projected to slow to 2.15% with an additional 0.5% increase** in reduced retained collections from the State Tax Commission after they reduce the withholding fee from 1% to 0.5% for administration and enforcement of sales tax collections. The projected growth in FY16 is well below the 10-year and 20-year average of 3.9% which is what sales tax is projected to grow in the last four years of the forecast.

Overall, sales tax, which is 53% of all General Fund revenues, is projected to **grow at 3.6%** annually over the five year period. This projection results in a $37 million increase over the forecast period, FY16 – FY20.



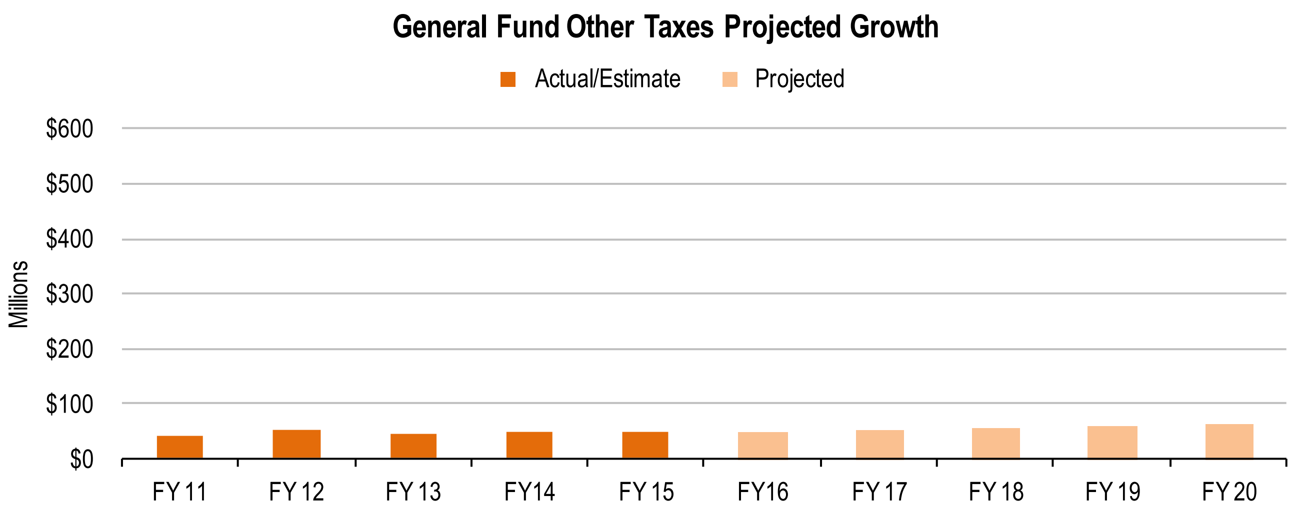
Other Taxes

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

Other Taxes Forecast

Use Tax has grown at an average of over 8% per year over the last ten years; however, that growth has been very erratic with a range of growth from 20% in FY05 to (11.5%) in FY13. In FY15, use tax had grown at 6.88% through January, compared to the same period last year. However, that growth is expected to decline even further to 5.67% by year end due to low oil prices. In FY16,use tax is expected to remain level due to the energy sector uncertainty. Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. For the remainder of the five-year forecast, use tax is projected to grow at 8.0% to approximate the 10-year and 20-year growth rate in use tax.

The commercial vehicle tax and motor fuel tax are both allotted to the City from the state by formula. That formula was changed several years ago reducing the City's share of those taxes. The legislation that modified the City's share guaranteed that the city would not lose any revenue from the change. As a result of the change, the city's revenue from commercial vehicle tax and motor fuel tax has only seen slight increases since FY04. The other two taxes the City receives are alcohol tax and the excise tax on tobacco. Through FY12, the tobacco excise had shown growth primarily due to increased enforcement by the Oklahoma Tax Commission and better compliance with the law from vendors, however FY13 and FY14 saw average declines of 7%. The decline in excise tax on tobacco was attributed to fewer cigarette smokers as reported by the Centers for Disease Control and Prevention in their report "Tobacco Control State Highlights 2012." In FY15, the decline is expected to be only 1.65% with no further declines or growth projected in excise tax on tobacco for the remainder of the forecast period. The alcohol tax is forecasted to grow at 5% per year, based on the ten year trend. Overall, other taxes, which make up 12% of General Fund revenue, are projected to **grow an average of 5.3%** over the forecast period.



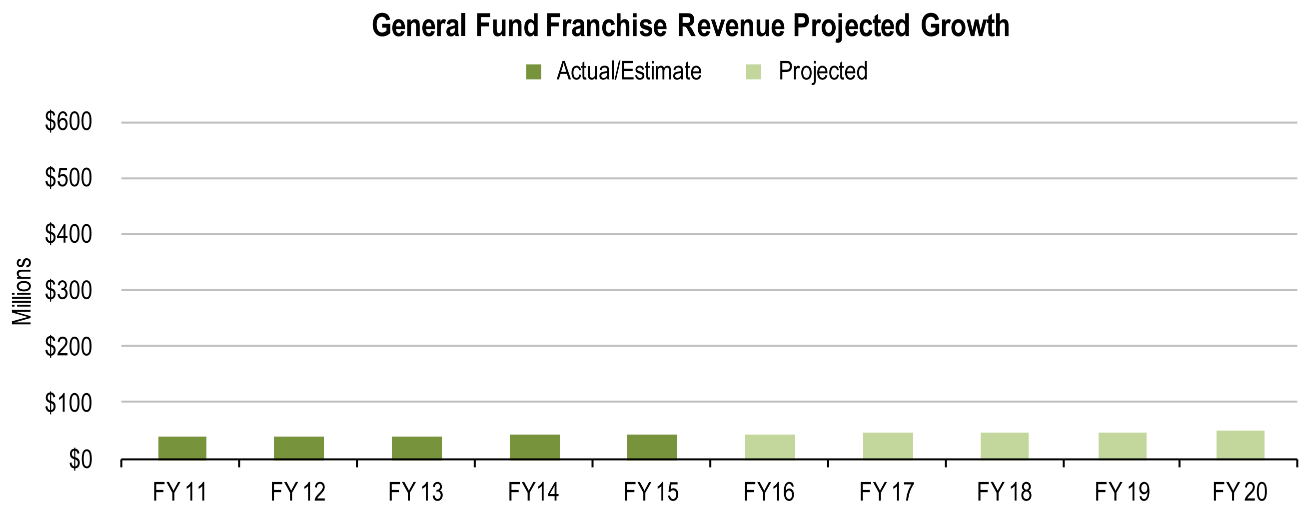
Franchise Revenues

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

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

Franchise Revenue Forecast

Franchise revenue is expected to finish FY15 with 3.55% growth due to increases in customer bases and rates. In FY16, growth of 2.49% is projected. For the remaining four years of the forecast, Franchise revenue as a category, is projected to average **growth of 2.7% per year** based on long-term averages.



Other General Fund Revenues

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

Licenses, Permits & Fees - Building permits and various business and occupational licenses are among the sources contained in this revenue category. These charges are designed to recover costs of the enforcement and administration of city codes and account for 4% of the General Fund revenue budget.

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

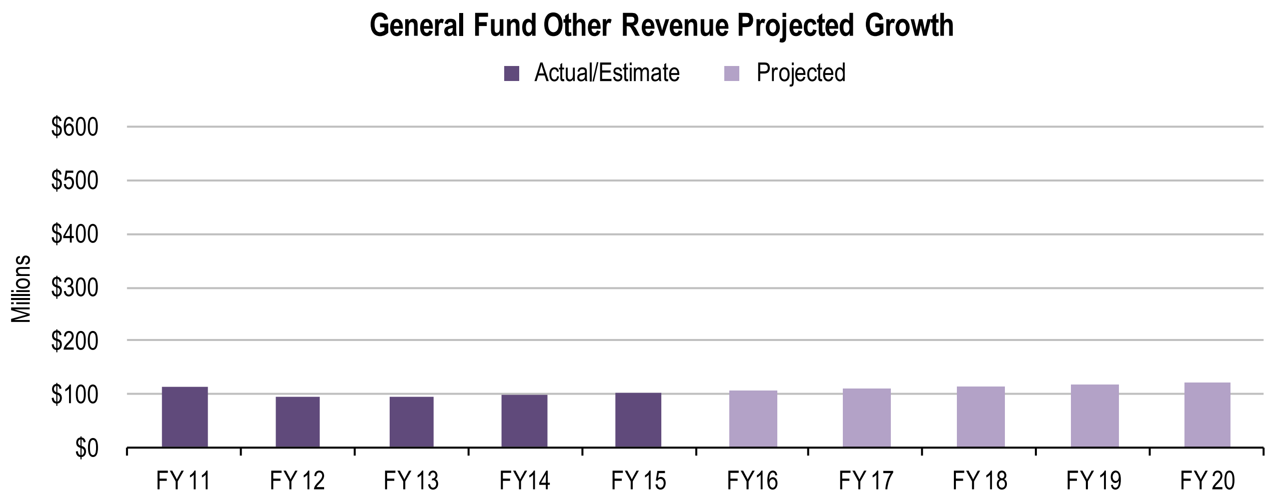
Fines - This revenue category includes fines imposed for municipal traffic and parking violations, fines imposed by the Court of Record and Criminal Court, and revenue from court costs. This revenue category makes up 6% of the General Fund revenue budget.

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

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

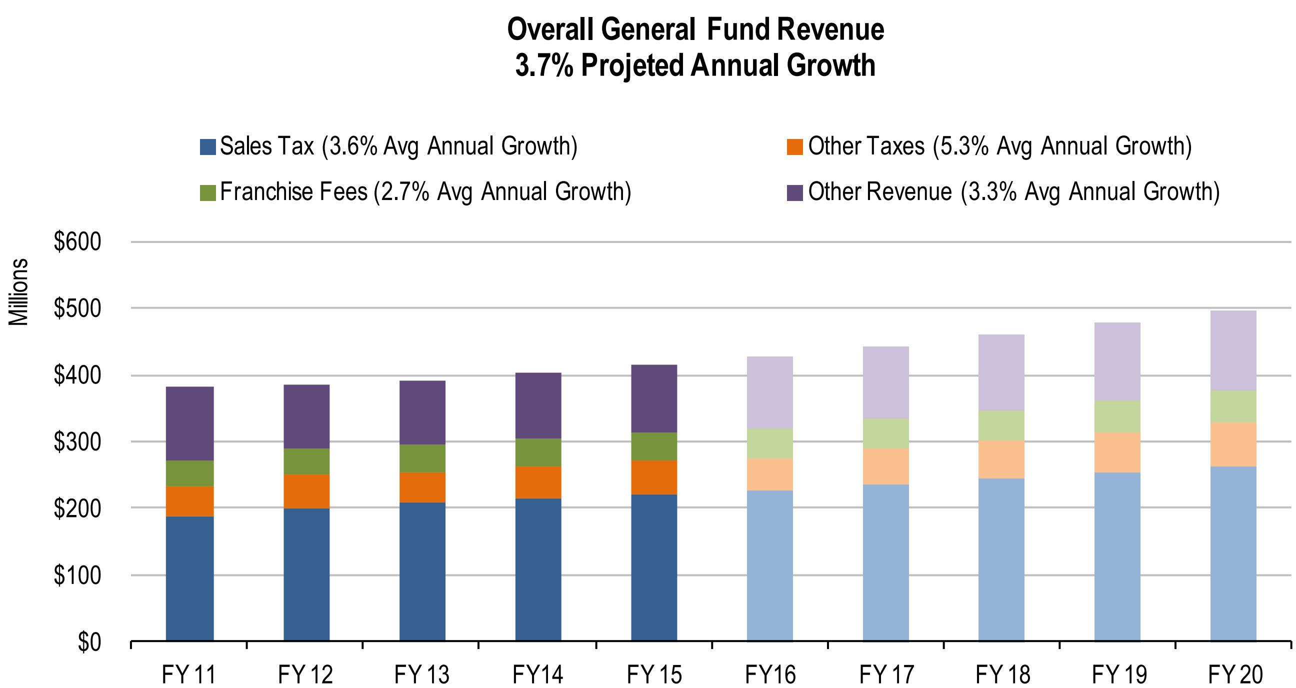
Other General Fund Revenues Forecast

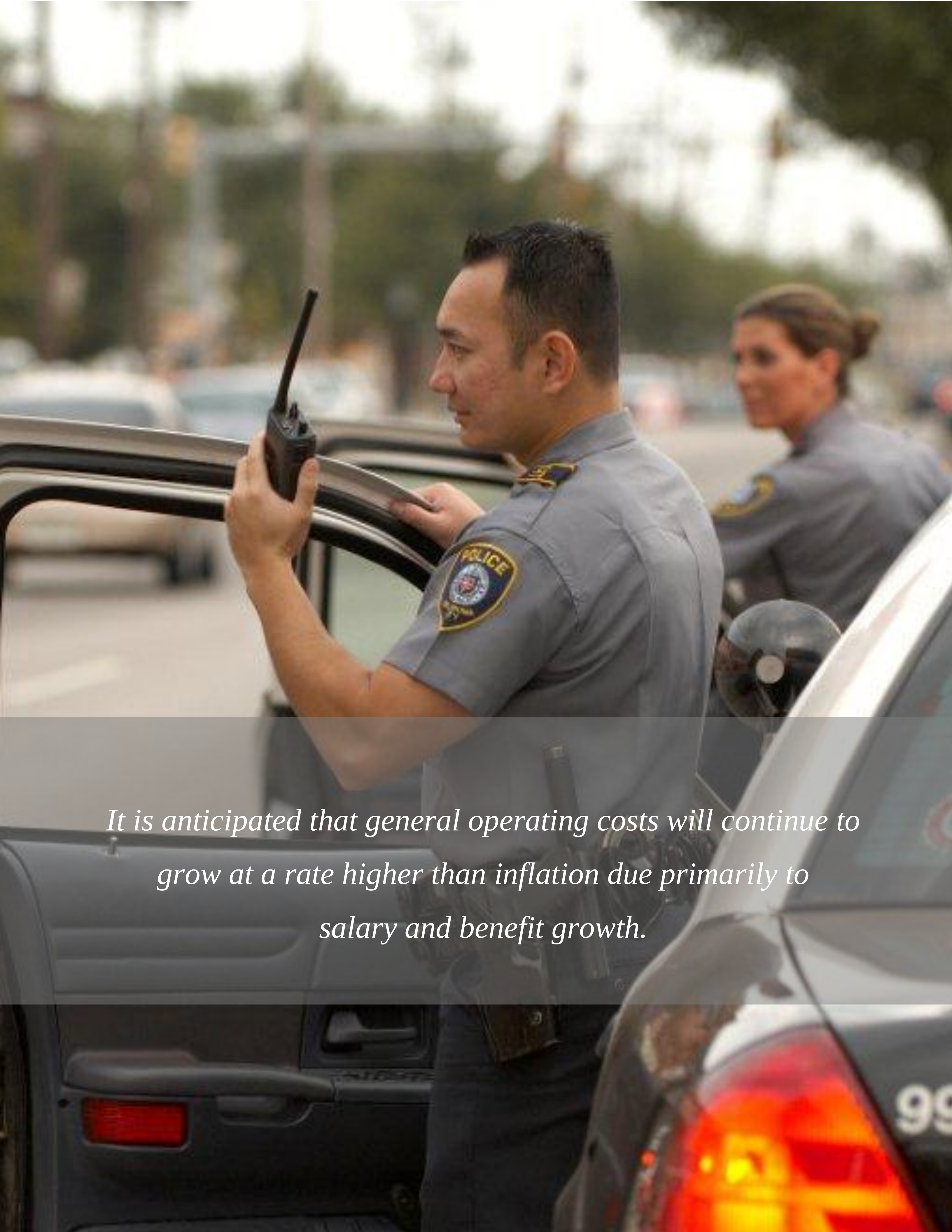
Overall, this group of other revenues makes up 25% of General Fund revenue and is expected to **grow 3.3% per year** during the forecast period.



Overall Revenue Forecast

When all of the categories are combined General Fund revenues are expected to **grow at about 3.7% per year** over the next five years. To put that in dollar terms, the General Fund is expected to grow from anticipated recurring revenue of $415 million in the current fiscal year to $497 million in FY20.





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

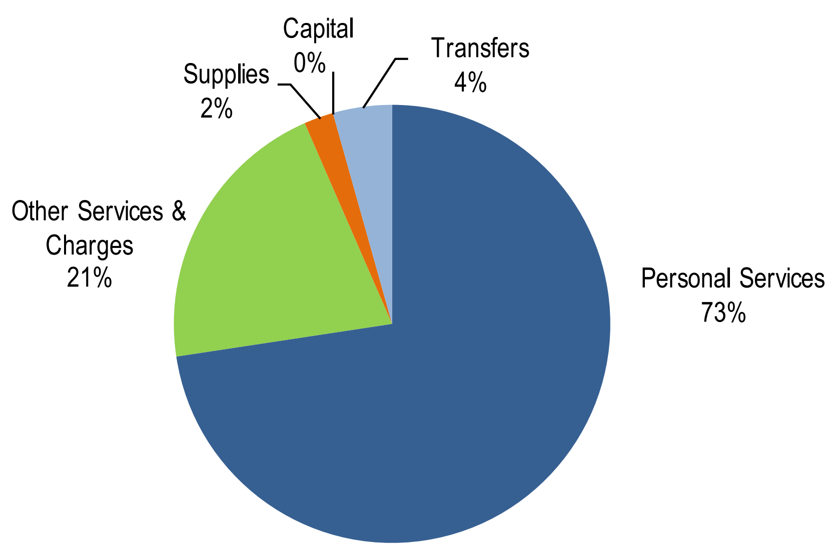
SECTION 7
GENERAL FUND EXPENDITURE TRENDS AND FORECAST

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

It is anticipated that general operating costs will continue to grow at a rate higher than inflation due, primarily, to salary and benefit growth. Consideration of the implementation of new or enhanced City programs include conservative financial assumptions to maintain the financial stability of the City.

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

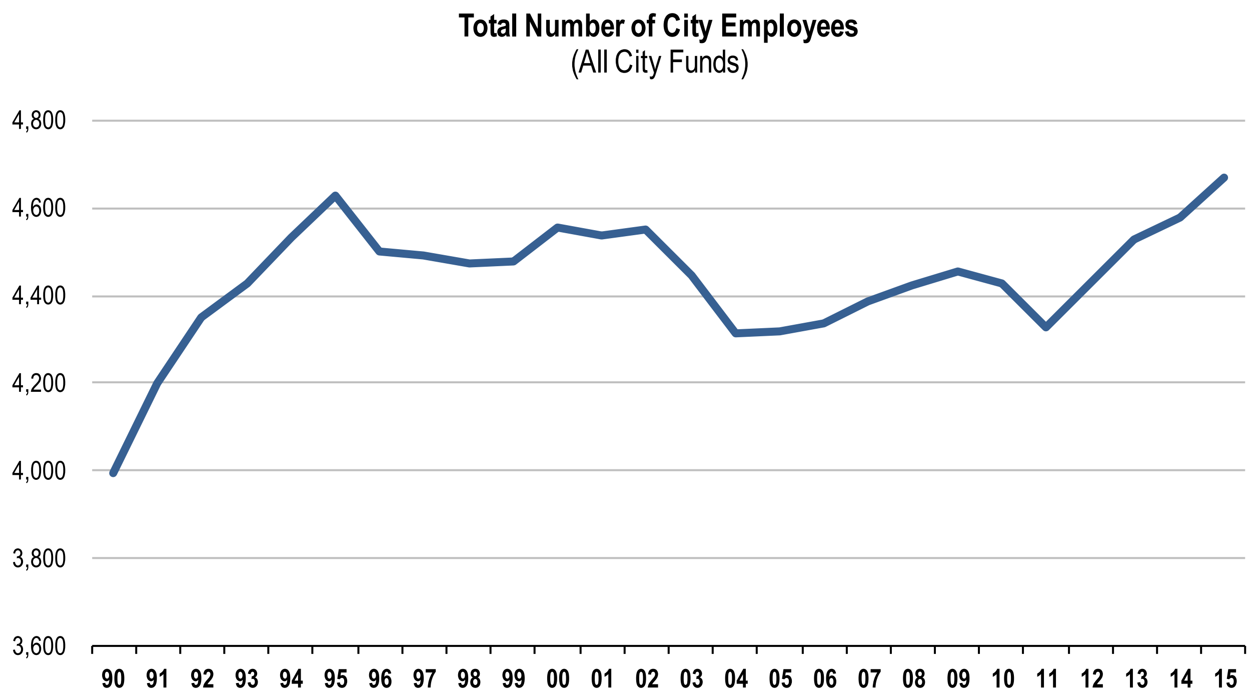
FY15 Adopted General Fund Expenditure Budget
$415,048,224



Personal Expenses. Personal services is the primary driver in expenditure growth in the General Fund and includes salaries, insurance, retirement contributions, and training. Public safety is the largest employee category and includes police, pictured at left, fire and courts; when combined they account for 54% of all employees.

Personal Services

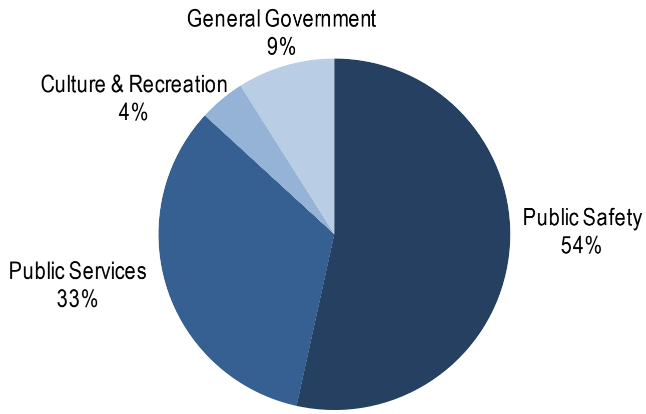
At 73% of the FY15 General Fund budget, personal services are the primary driver in expenditure growth in the General Fund. Personal services include salaries, insurance, retirement contributions, and training. Obviously, the two main drivers in the growth of personal services are the number of employees and the pay and benefits of those employees. In FY15 the City added 92 positions to for a total of 4,672 positions.



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

These totals under-represent the full level of effort in these areas due to two primary factors; the first is that these figures only count city employees and do not include employees of the city's trusts. The Oklahoma City Zoological Trust has about 151 full-time employees and the Oklahoma City Public Property Authority has about 65 full-time employees working at the city's golf courses. These employees would count in the culture and recreation category. There are also 215 full-time employees in the Central Oklahoma Transit and Parking Authority who would fall in the public services category. The second factor is the many city contractors providing city services, such as the employees of SMG who operate the Chesapeake Energy Arena and Cox Center, the employees of Waste Management, Inc. who provide much of the city's trash service, and the employees of Veolia Water Company who operate the city's wastewater treatment plants. Contract employees are not counted in any of these totals.

FY15 Employees By Category
4,672 Employees



In addition to the number of employees, the other portion of the personal services cost equation is the cost per employee. The City of Oklahoma City is committed to attracting and retaining a highly skilled work force by offering competitive salaries and must balance that goal with available resources and demands for additional services.

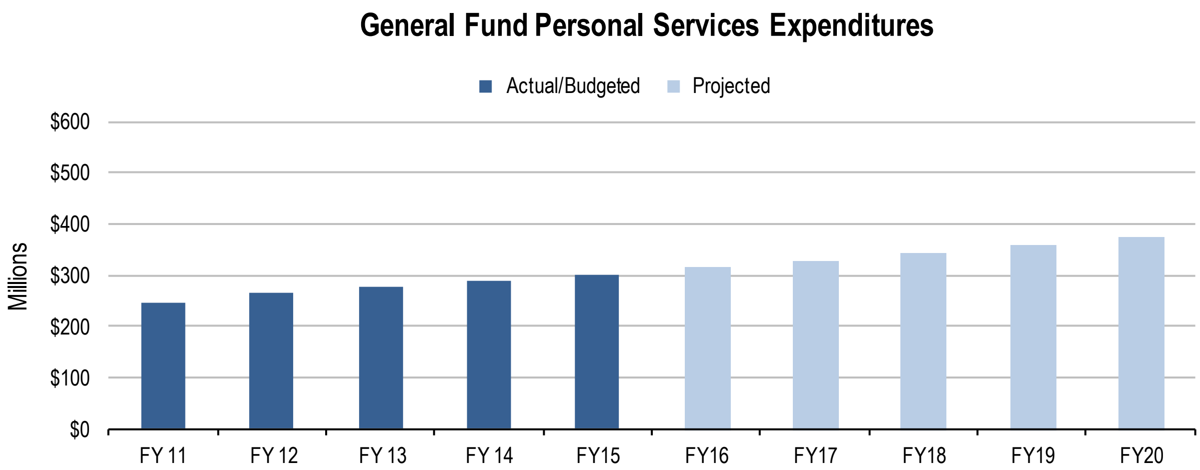
Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters such as overtime. In the FY15 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,470 general positions. The Fraternal Order of Police (FOP) represents the 1,114 uniform police positions. The International Association of Fire Fighters (IAFF) represents the 956 uniformed fire positions. The remaining 1,102 positions are unrepresented management and executive positions that receive pay plan changes through city management recommendation and Council approval.

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

Personal Services Projections

Looking back at how employee costs have grown in recent years helps inform the projections for the future. From FY05 through FY09 the cost per employee increased an average of 4.8% per year, which was a time when the city was gradually adding positions and granting pay plan increases each year. During FY10 and FY11 the average cost per position decreased by 0.2% per year as the City was cutting positions, holding positions vacant, and did not give pay plan increases. In FY12, FY13, and FY14 positions were added and pay plans increased, resulting in the cost per employee growing an average of 4.6% per year. The average growth rate from FY05 through FY14 was 3.74%.

The forecast assumes some growth in the number of positions for specific purposes. For example, additional staffing for two new fire stations are included as well as the desire for additional police officers that have been budgeted at 20 positions per year through the end of the forecast period. With these changes factored in, personal services are projected to **grow an average of 4.4% per year.**



Other Services

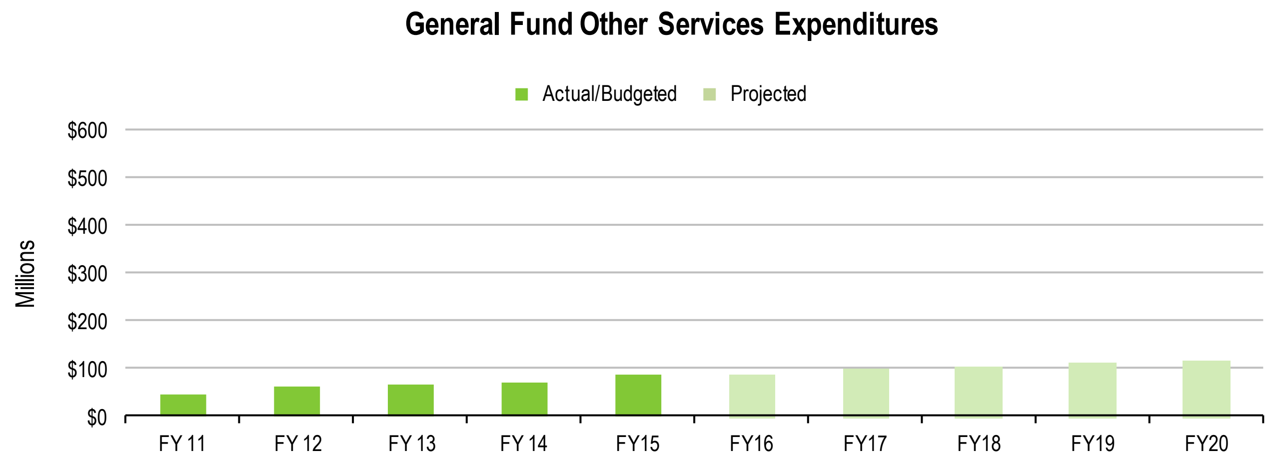
Other services includes expenditures for service contracts, utilities, printing, vehicle maintenance and professional services. The FY15 budget for other services totals $86.6 million or 21% of all General Fund expenditures. Other services also include chargebacks which are charges between internal city agencies for vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance. In FY15, chargebacks account for $32.6 million of other services. The payment to the Central Oklahoma Transportation and Parking Authority (COTPA) is now classified as an other service, and accounts for $17.4 million of the other services and charges total in the FY15 budget.

Other Services Expenditure Projections

Most of the costs for other services during the forecast period are expected to grow at an average of 3.0% per year, the average annual growth rate over the last ten years. There are three exceptions in this category which are projected to grow at a rate greater than average. First is the operating support provided to COTPA for transportation services which are projected to rise at 10.0% per year based on the history for the past four years and will fund incremental changes to personnel and other operating costs. In addition to the incremental growth projected in support for COTPA, budget of $3.6 million per year has been added for bus replacement beginning in FY17 and additional budget will be needed as Phase I of the modern streetcar project is completed and an operator brought online. Based on preliminary analysis, $1.5 million was added in FY17 increasing to $3.0 million in FY18 when the streetcar is expected to be operational for the public.

The second exception to projected growth rates are chargebacks which are expected to grow at the higher rate of 5% per year as things such as workers compensation costs, property liability insurance, and technology costs continue to rise.

And last is an addition for operation of the new downtown park being constructed as part of MAPS 3. As each phase of the park is completed and takes shape, the operating costs are expected to increase. Almost $800,000 is budgeted in FY17 to fund operating costs for an opening in FY18. In FY19 the operating costs are expected to increase to $1.2 million as Phase II is completed and then $1.7 million in FY20 as Phase III takes shape. Overall, the other services category is expected to **grow an average of 6.3% per year.**



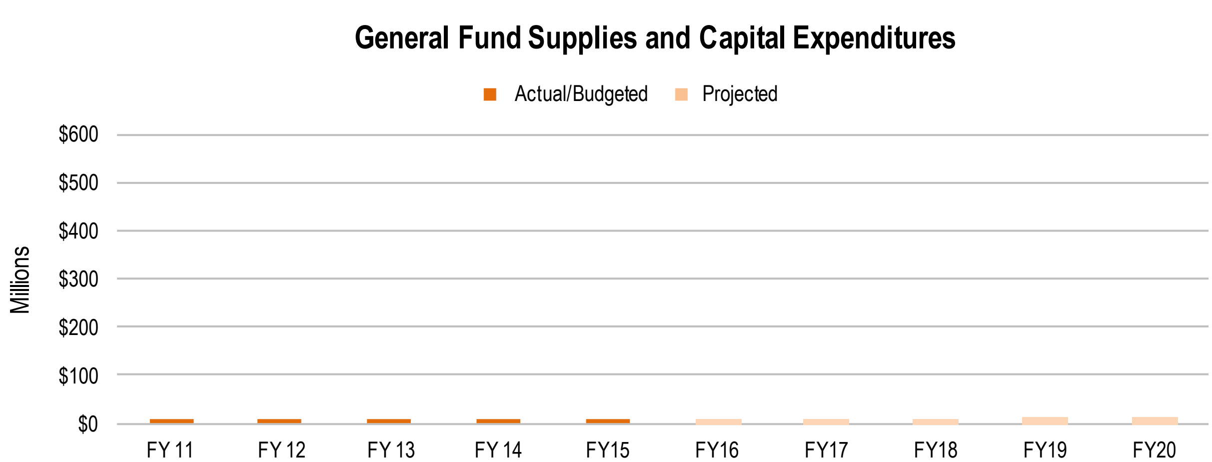
Supplies and Capital

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

Capital costs (replacement of office equipment, etc.) have, generally, been minimal in the General Fund. Most capital projects not funded by dedicated sources, such as bonds or dedicated sales taxes, are handled in the Capital Improvement Fund. Capital expenditures total about $0.1 million in FY15. Funding for the Capital Improvement Program is included as transfer expenditures to other City funds.

Supplies and Capital Expenditure Projections

Supply and capital costs are expected to **grow at 4.9% per year** over the five-year forecast period.



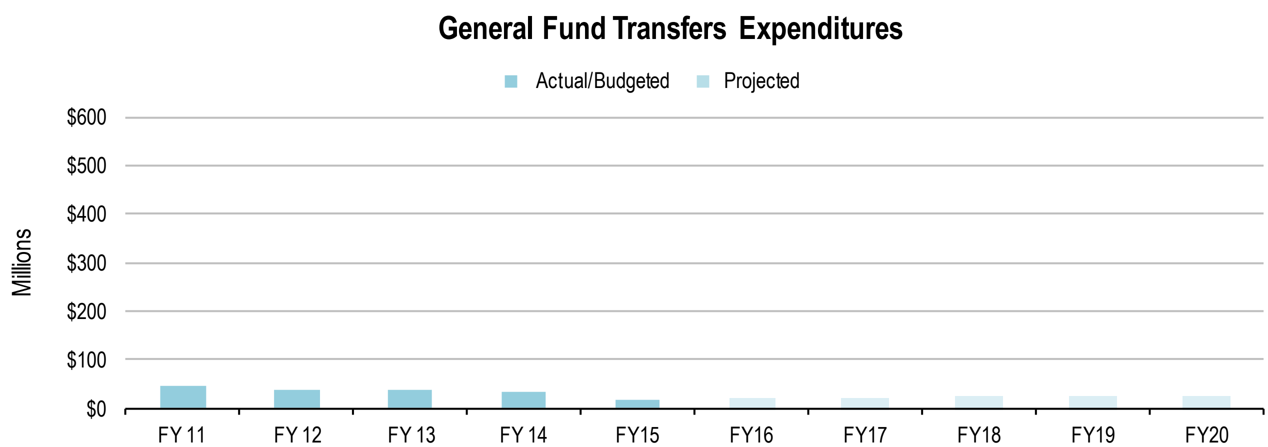
Transfers

General Fund transfer costs reflect the General Fund's direct financial support of a number of services whose own dedicated funding sources are insufficient to meet City objectives. In total, the adopted FY15 General Fund budget includes $18 million in transfers. The three largest transfers in this category include $5.9 million for transfer to the Capital Improvement Fund, $5.2 million for transfer to OCPPA for operation of the Chesapeake Arena and Cox Center, and $3.2 million for E-911 operations.

The chart below shows a significant increase in transfers in FY11, FY12 and FY13. One key reason for the increase in FY11 was the transfer from the General Fund to the MAPS 3 Use Tax Fund to reimburse the fund the costs of police and fire uniformed position costs. The MAPS 3 Use Tax was used to temporarily fund 55 police and 45 fire positions to avoid significant cuts in those departments. When sales tax revenue recovered so strongly, the City Council amended the budget to reimburse the MAPS 3 Use Tax Fund which will allow for further fire and police vehicle replacement in future years. Also, in FY11, the General Fund paid back a significant amount on the loan from the MAPS Use Tax Fund related to Bass Pro construction. This early payment was made so that loan payments from the General Fund would end at the same time grant funding for 29 firefighters and 7 police officers ended in FY14, making the costs easier to absorb in the General Fund. In FY12 and FY13, City Council amended the budget each year to transfer fund balance to CIP for street repairs. Also included in the amendments were transfers for a data center for the Information Technology Department and capital repairs and upgrades at the Oklahoma City National Memorial and Museum.

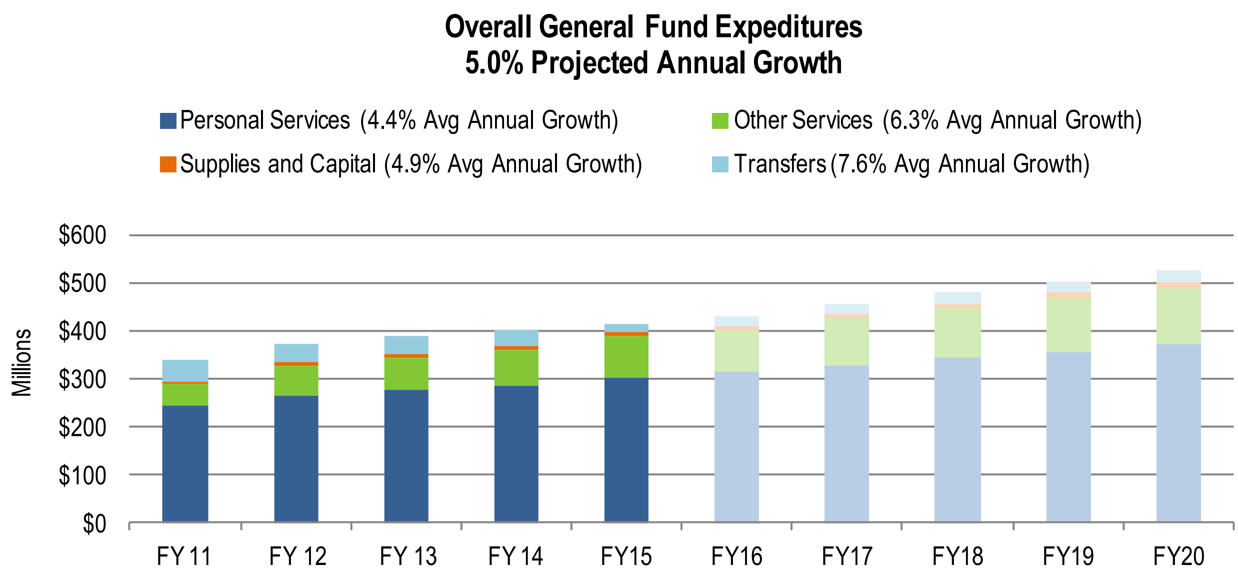
Transfers Expenditure Projections

Transfers are expected to **increase an average of 7.6% annually** over the five-year forecast period.



OVERALL EXPENDITURE FORECAST

When all of the categories are combined, the net effect is annual **growth of about 5.0%** in General Fund expenditures over the next five years. To put that in dollar terms, expenditures are expected to grow from a FY15 budget of $415 million to $528 million in FY20. The chart below provides a visual representation of that growth.



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