THE CITY OF OKLAHOMA CITY

FIVE-YEAR FORECAST

FY 2018-2022

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FIVE-YEAR FORECAST

FY 2018-2022

3.17%

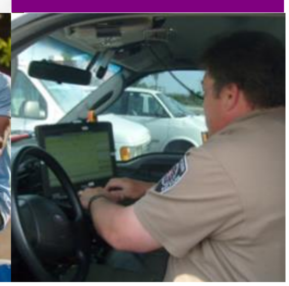
Projected Annual Revenue Growth

4.74%

Projected Annual Expense Growth

2.50%

Projected Sales Tax Growth in FY18



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 outlook for the coming year.

Dr. Evans' baseline expectation is for City Sales Tax collections and local labor market conditions to improve through the Spring of 2017; however, the transition to growth is not expected to occur in FY17 but rather will coincide with the start of FY18. City Sales Tax collections are projected to grow 3.8% to 4.2% in FY18.

GENERAL FUND OUTLOOK

The revenue forecast for the General Fund projects overall revenue growth of 1.65% next year and average annual revenue growth of 3.17% over the five-year forecast period. Sales tax remains the key revenue source for the General Fund, accounting for 53% of all revenue. The preliminary projection is for Sales tax to grow at 2.50% next year and at a rate of 3.46% per year in the following years based on historical trends.

Expenditures are forecasted to grow at an average rate of 4.74% per year over the forecast period. Personal services, the largest category of expenses, is projected to grow at 4.22% per year due to increased salary and benefit costs, additional positions for Fire to staff one new fire station that will open within the next five years, and a desire to add additional Police positions. Growth in other expenditure categories include estimated amounts for the MAPS 3 Park and the Oklahoma City Streetcar, both of which are expected to open to the public in FY19, bus replacement beginning in FY19, 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 $51.5 million in the General Fund in FY22. By laying out the many challenges that departments have identified, long-term strategies and priorities can be set to address those issues and the projected General Fund Gap.

FINANCIAL EVALUATION TOOLS

The Five-Year Forecast document follows the same format as previous years and once again includes the Financial Trend Monitoring System (FTMS) which is designed to take multiple key indicators and consider the trend of these indicators to assess Oklahoma City's current financial condition. This system provides the city with a more comprehensive evaluation of financial condition rather than focusing on individual indicators, such as fund balance. The overall results of the FTMS indicator ratings were 11 positive, 7 neutral and 4 negative. Also included in the forecast are the top financial issues facing departments over the coming five years; revenue and expenditure trends in the General Fund, along with projections for the next five years.

CONCULUSION

Overall, the city is in a favorable financial position. However, new revenue sources, an expanded sales tax base, and/or growth in the local economy may be needed to fund operations at a level desired by citizens. In FY18, proposed budget reductions will most likely be taken and desired program improvements submitted by departments may not be achievable. Service levels may be impacted in some programs. It is probable that adjustments will be made to the forecast as the energy sector continues its recovery and Oklahoma municipalities explore solutions for declining sales tax collections due to an increase in online purchases where no sales tax is remitted. Staff will continue to work with the City Manager to present Council with a proposed FY18 budget that balances operating needs with available resources and a forecast that provides accurate, timely, and objective information about the city's financial condition.

FIVE-YEAR FORECAST

FY 2018-2022

SECTION 2

INTRODUCTION

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

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

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

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

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

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

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

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

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

STRUCTURE OF THE REPORT

This year's Five-Year Forecast follows last year's format. Dr. Russell Evans, Executive Director of the Steven C. Agee Economic Research and Policy Institute at Oklahoma City University (OCU), developed Section Three, Economic Outlook. The City has contracted with OCU to provide the most rigorous forecast available. The information from the economic forecast informed the estimation of sales tax revenues in the preliminary budget for FY18 and this forecast.

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

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

The final sections of the forecast (Six, Seven, and Eight) provide General Fund revenue and expenditure trends and projections over the next five years and the projected gap in FY22.

FIVE-YEAR
FORECAST
FY 2018-2022

SECTION 3

ECONOMIC OUTLOOK

A review of Economic and Fiscal Conditions in the U.S., Oklahoma, and Oklahoma City.

Prepared by:

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Introduction

Both empirical and anecdotal evidence confirms Oklahoma's economic reality as an energy state. This reality, however, occasionally leads casual observation to give too much credit to the state's oil and gas sector in determining economic outcomes. Such was the case in 2016. Energy industry activity peaked in the fall of 2014 and contracted sharply through the fall of 2015. The pace of contraction ameliorated in early 2016 and formed a bottom by summer. Industry activity has since improved modestly with cautious optimism guiding expectations for 2017. The Bank SNB Oklahoma Energy Index created and maintained by Oklahoma City University in partnership with the Oklahoma Independent Petroleum Association summarizes the state's recent oil and gas experience.

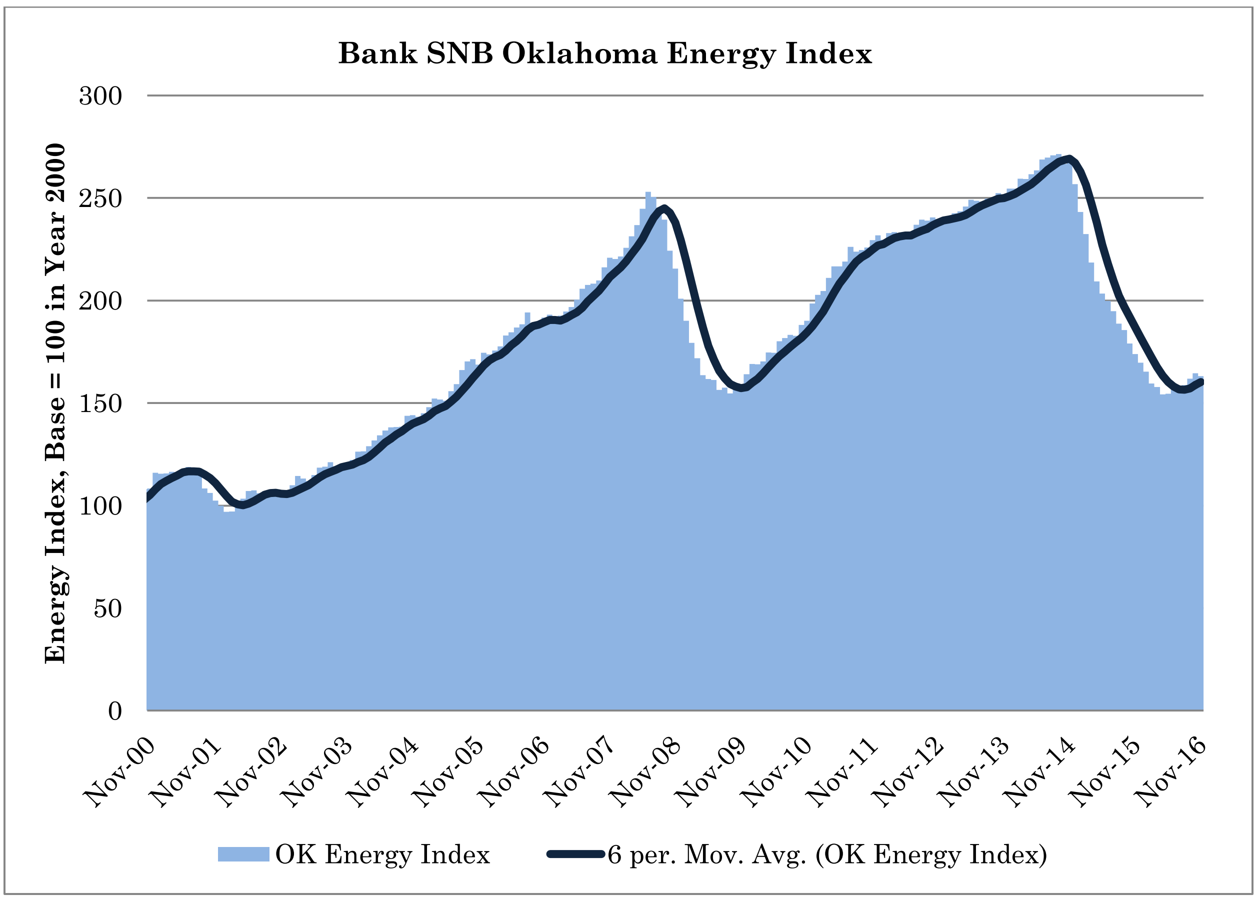
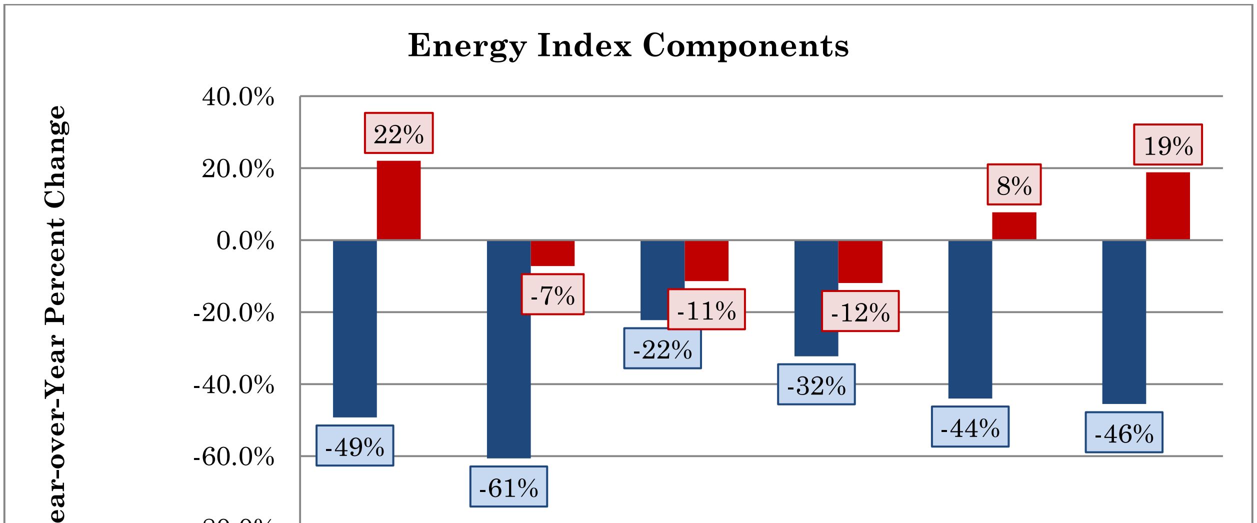


Figure 1: ***Bank SNB Oklahoma Energy Index: 2000-2016***

Although it has been said repeatedly, it is worth emphasizing again the severity of the industry contraction. The bust was greater in both magnitude and duration than the experience of the great recession and the influence of an inventory of drilled but uncompleted wells combined with only modest growth in global energy demand make an imminent return to boom conditions unlikely. Rather, the expectation is that 2017 marks a year of persistent but modest recovery.



	Nat. Gas	Rigs	Primary Emp.	Support Emp.	Oil	OK Portfolio
Y/Y Change 2015	-49.3%	-60.7%	-22.2%	-32.3%	-44.0%	-45.6%
Y/Y Change 2016	22.0%	-7.2%	-11.4%	-11.9%	7.7%	18.8%

Figure 2: ***Energy Index Components, Y/Y Growth***

Comparing the fall of 2014 to subsequent years illustrates the depth of the contraction. Through November 2015 all index components were down significantly led by a 61% drop in rig activity, commodity prices and Oklahoma equity valuations that fell nearly by half, and employment contractions of 22% in energy employment and 32% in energy support employment. In contrast, moving from November 2015 to November 2016 saw natural gas prices rise by 22% and oil prices by 8%. Oklahoma equity valuations were up 19%. Employment is still down year-over-year but up from the lows set in the summer of 2016. The weakness experienced in local economies in 2016 cannot be explained by energy sector weakness alone.

U.S. economic activity as measured by gross domestic product can be calculated either by adding together expenditures on final goods and services or by adding together all income and profit streams (the expenditure and income approach to calculating GDP). Taking the expenditure approach, GDP can be decomposed into sales to domestic purchasers (households, firms, and governments), sales to foreign purchasers (net exports) and internal sales to the producer (change in private inventories). As GDP is measured at the point of production rather than the point of sale, goods produced but unsold are treated as imputed purchases to the producer who holds product in inventory to be sold at a later date. Inventories generally follow a natural ebb and flow cycle as inventory accumulation in one period prompts a slowdown in the next period's production as producers work to draw down existing inventory before rebooting the production process. In periods of recession, however, working through existing inventory can take longer, leading to a prolonged period of suppressed production. The U.S. economy experienced an inventory cycle consistent with a modest recession that began in the second quarter of 2015 and continued through the second quarter of 2016. The average annual rate of growth in the U.S. economy over this period was just 1.5%.

Heading into 2016 the baseline expectation was for slow U.S. growth, but not nearly as slow as recorded in the first half of the year. Inventory drawdown in the latter half of 2015 was expected to yield to modest production increases in early 2016. Instead, production slowed further as firms slowly worked through existing inventory. U.S. economic growth in the first half of the year struggled to top 1% and is not expected to reach 2% for the year even with some second half strength.

The local impact of a marked slowdown in national conditions when already fully exposed by a regional oil bust mirrored that of a mild recession. That is, rather than hold steady with energy industry activity, statewide labor market and fiscal outcomes experienced a second round of contractions.

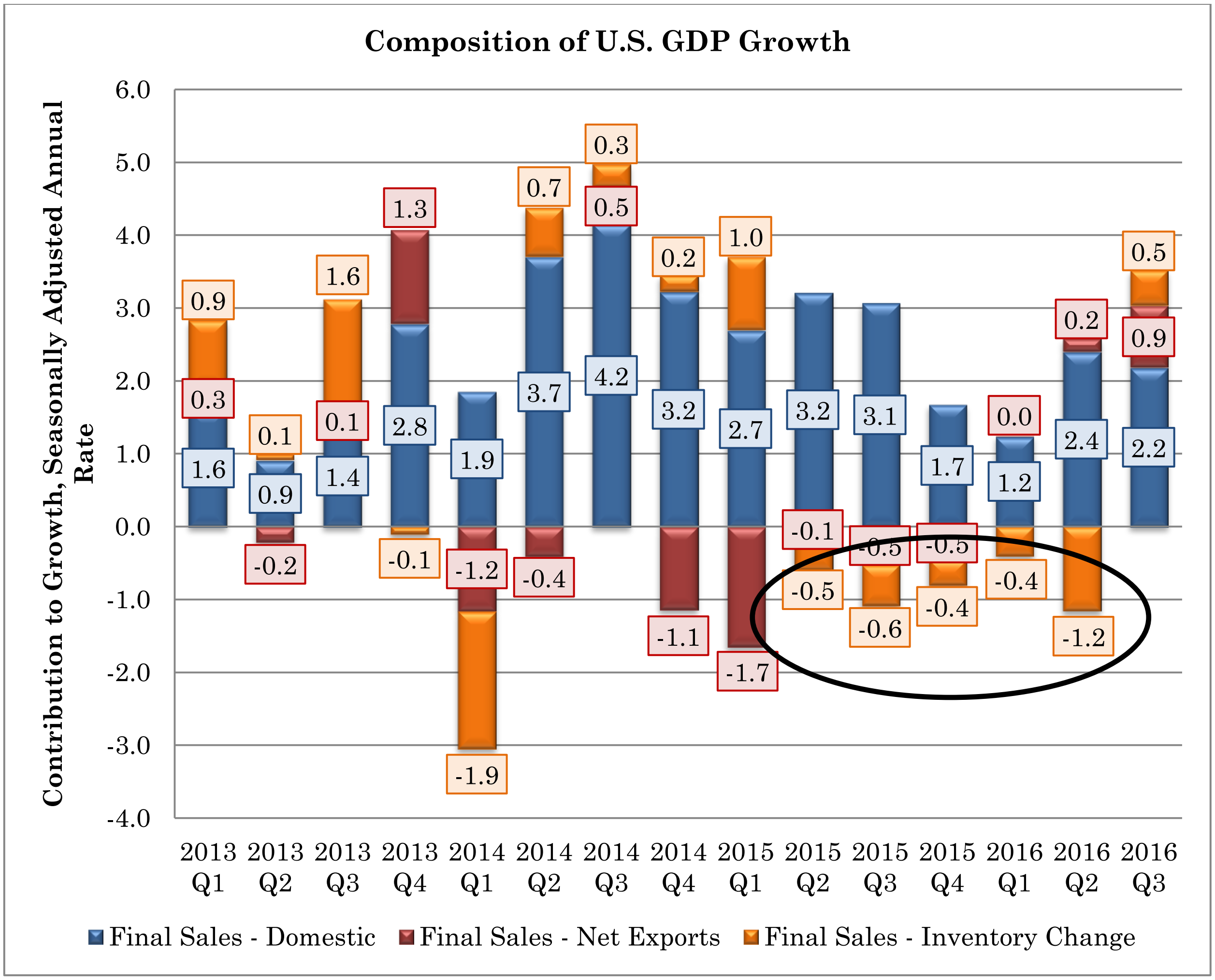


Figure 3: ***Composition of U.S. Growth – Inventory Cycle Highlighted***

In both the state and city economy, the effect of the inventory cycle headwind was stronger than any developing tailwind from a stabilizing oil and gas sector. The result was a second wave of labor market challenges. Private payroll employment growth at both the state and city level stalled with peak activity in the oil and gas sector. Statewide employment contracted modestly through 2015 while Oklahoma City employment moved laterally (highlighted as the commodity cycle in figure 4). As 2015 turned to 2016, both the state and city were in an economically weakened condition when confronted with a recession-like inventory adjustment cycle. The effect of which was declining payroll employment in both economies (highlighted as the inventory cycle in figure 4).

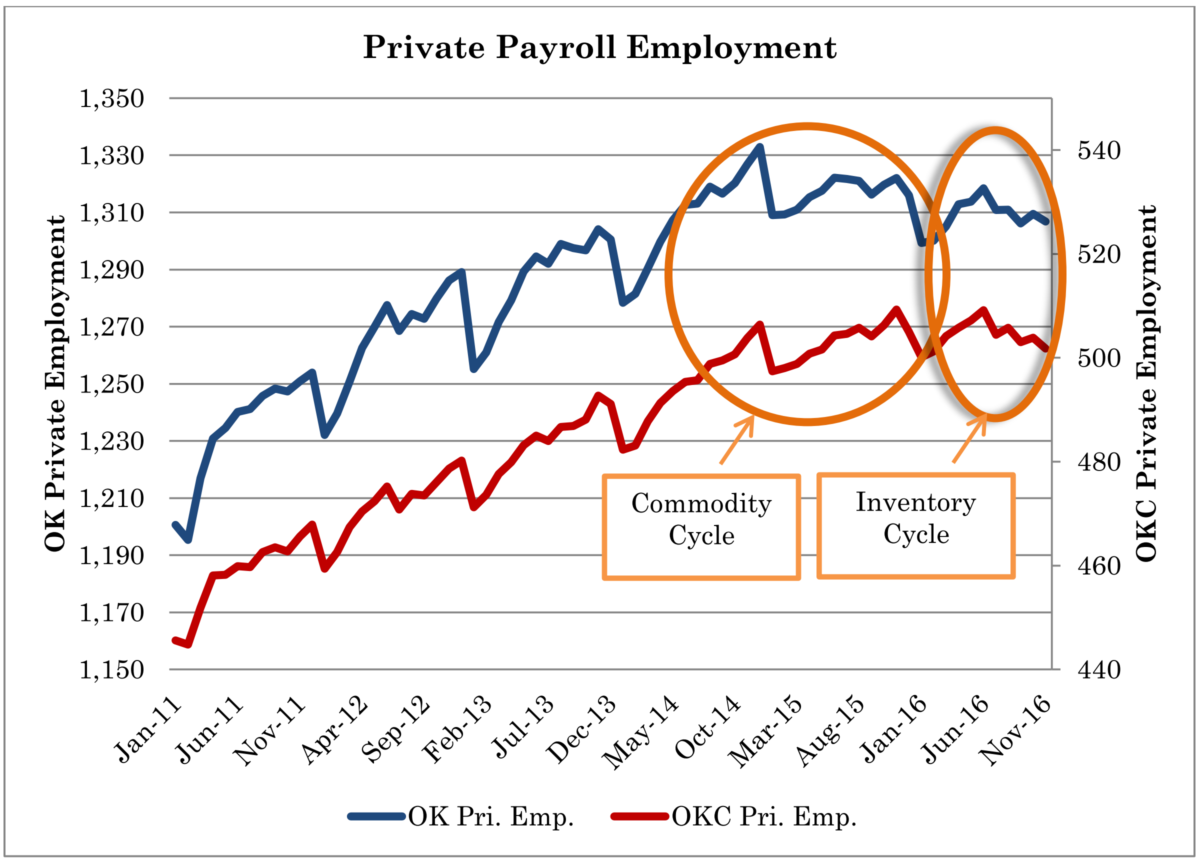


Figure 4: ***Oklahoma and Oklahoma City Private Employment***

The dual cycle influence in also seen in average weekly earnings data. The effect of the commodity cycle was to force from the labor market disproportionately high wage jobs in the oil and gas sector causing the all private sector average to contract. The effect of the inventory cycle, however, was to force from the labor market a mix of low income jobs from the goods producing (primarily manufacturing) sector causing the all private sector average weekly earnings to expand. While initially seen as a source of economic strength, the growth in average wages belied a labor market contraction.

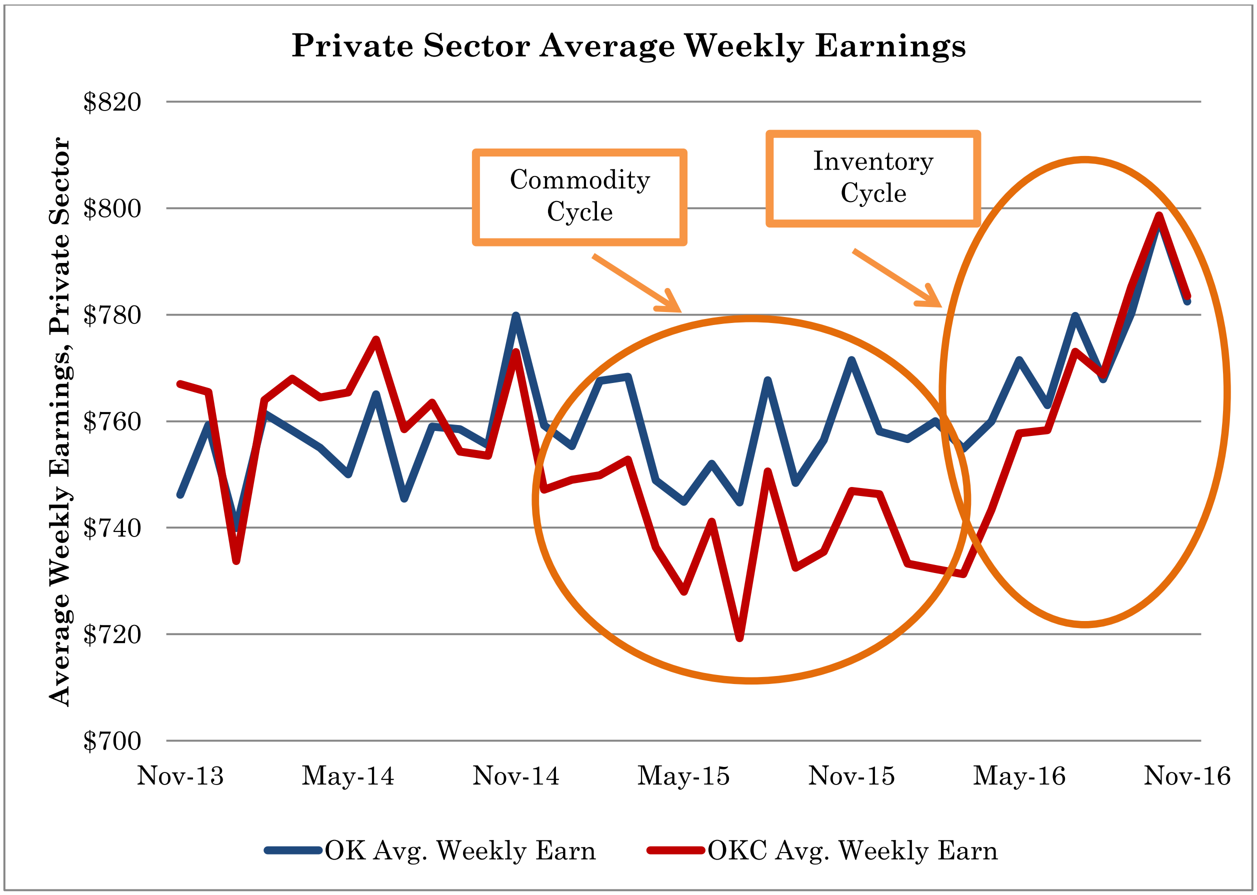


Figure 5: *Oklahoma and Oklahoma City Average Weekly Earnings*

The impact of the inventory cycle following closely the bottom of the commodity price cycle exerted different impacts in the goods and services producing sectors of the economy. In the services sectors, the commodity cycle dampened the rate of growth (flattened the trend) through 2015 before yielding nearly all growth in 2016. In the goods producing sectors, employment tried to hold a bottom in late 2015 only to be turned lose again to the downside in 2016. Again, the Oklahoma experience in both of these sectors is very similar to what was experienced in both of the last two national recessions.

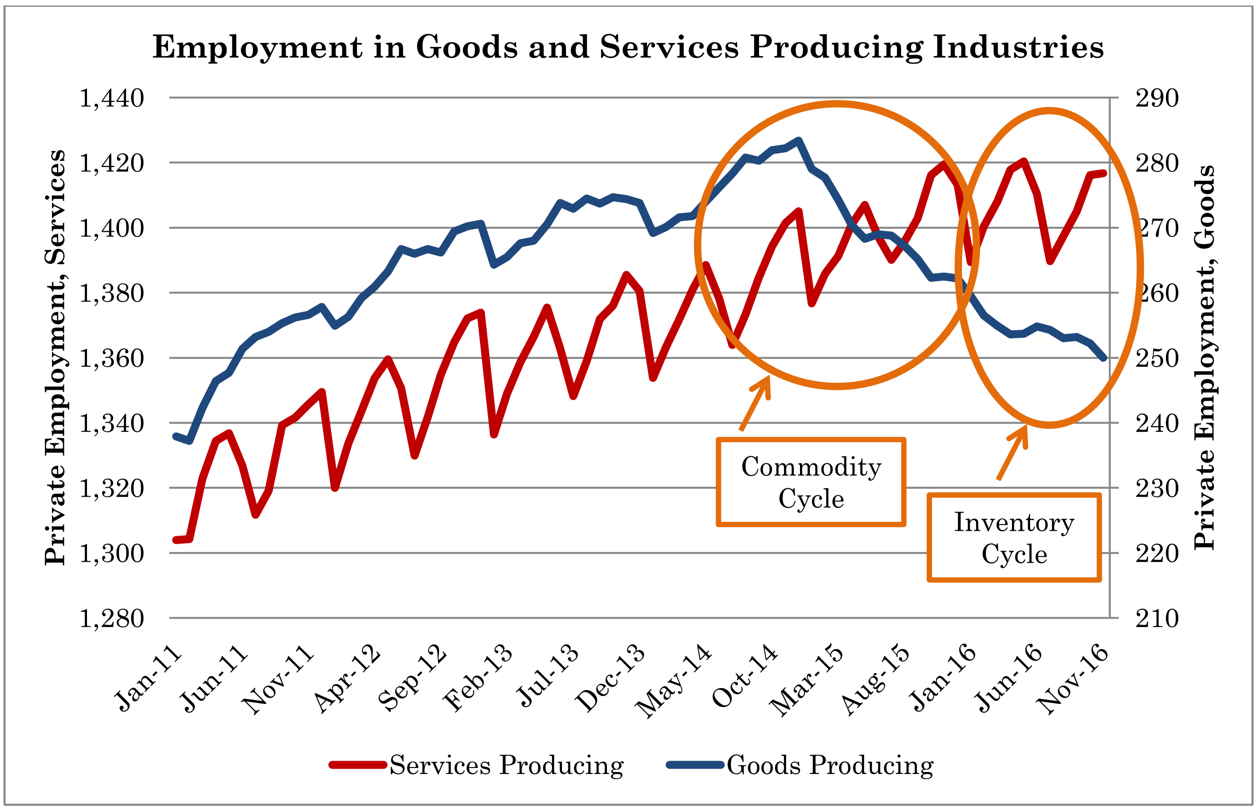


Figure 6: *Oklahoma Goods and Services Sector Employment*

The macroeconomic theme of 2016 was the pronounced, recession-like inventory cycle. That the inventory cycle followed so closely the energy sector bust left energy states like Oklahoma exposed to the full effect of national weakness. Indeed, the 2016 experience underscores how fortunate the state was to avoid an outright recession when so economically vulnerable.

The U.S. Outlook

Economic activity is expected to stabilize in 2015, expanding at an annual rate of just over 2% consistent with the post-recession recovery but still disappointing compared to pre-recession activity. The age and maturity of the current expansion indicate some risk of a developing recession, but moving out of the inventory cycle discussed previously should push any economic weakness into 2018 or beyond. Additional risks include lingering global economic weakness, political and regulatory uncertainty associated with an administration change, and rapidly shifting geopolitical relationships (particularly with regard to trade relationships).

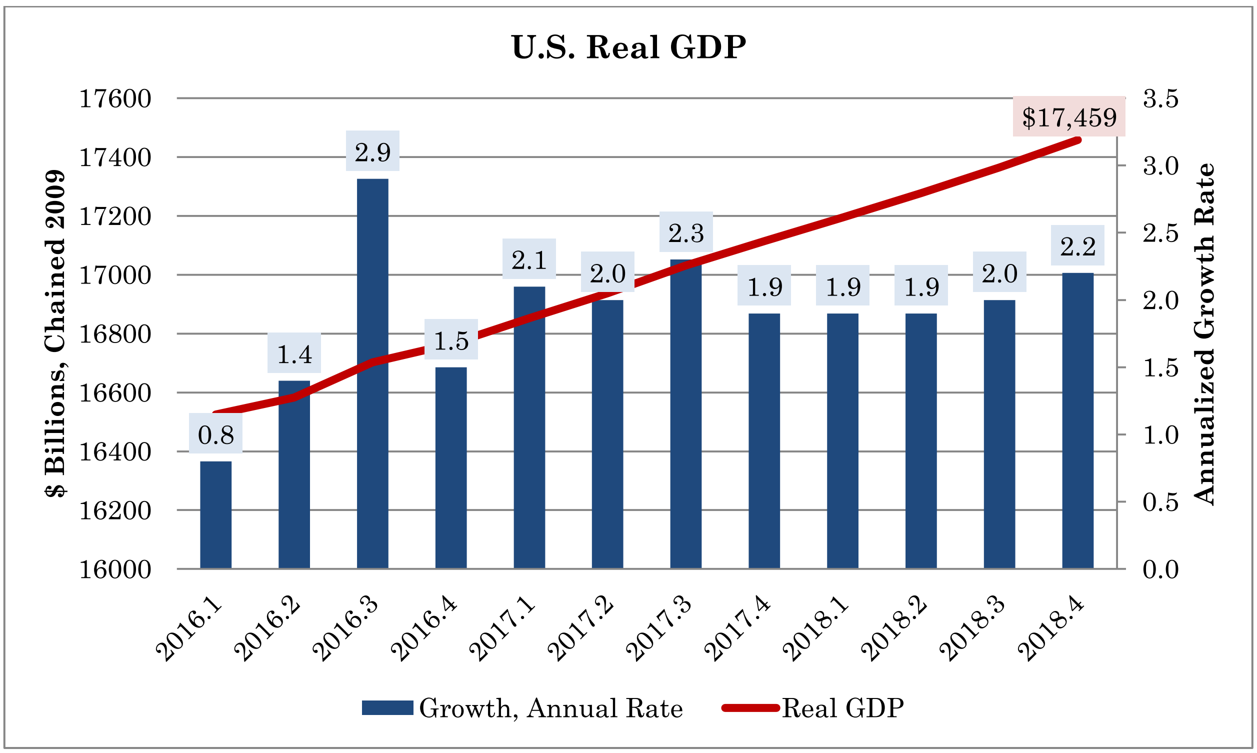


Figure 7: ***U.S. Real GDP***

The U.S. labor market continues its slow but persistent move towards full employment. Improving labor market conditions likely signal at least two interest rates moves by the Federal Reserve in 2017. Importantly, a labor market at or near full employment also suggests that any large infrastructure initiative from the new administration would have a larger price effect (inflation) than employment effect (job creation). The U.S. labor market is expected to create an average of 175,000 new nonfarm jobs per month through 2017 with the unemployment rate trending slowly towards 4.5%.

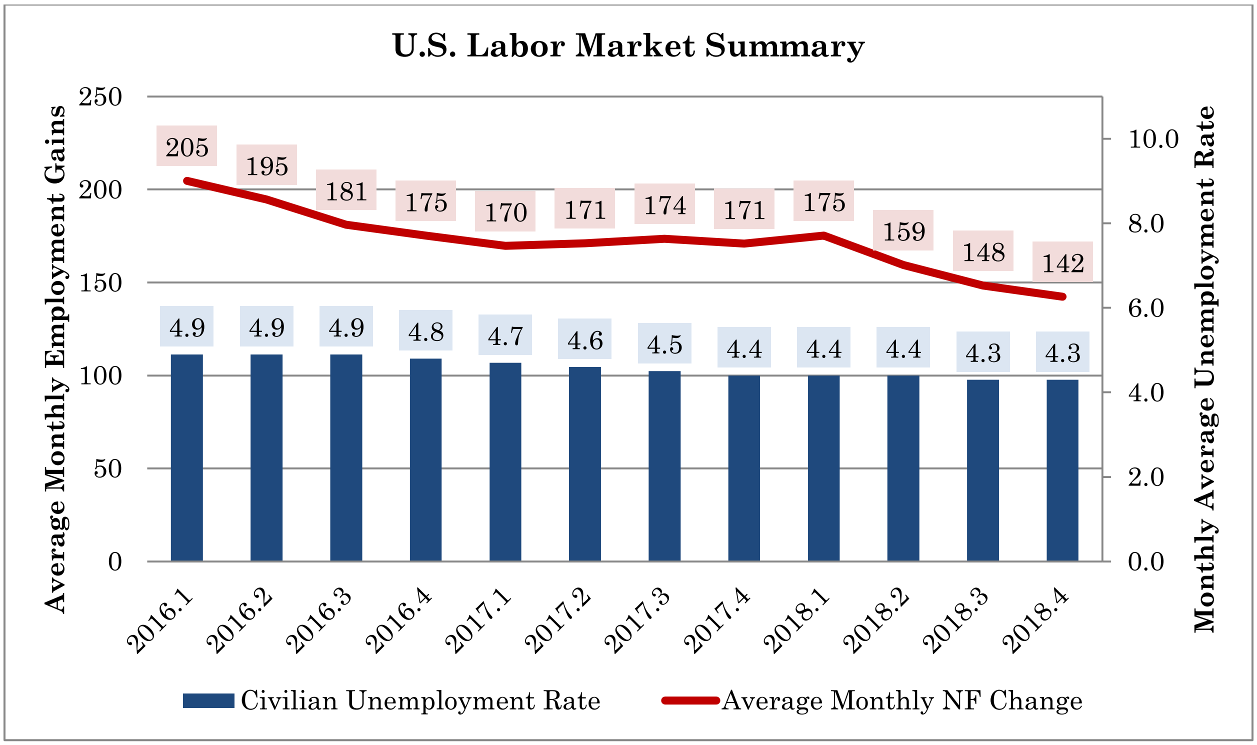


Figure 8: ***U.S. Nonfarm Job Creation and Unemployment Rate***

Improving labor market conditions combined with modest inflationary pressures should give weight to the argument for less accommodative monetary policy. While the Federal Reserve remains dovish, a consensus seems to be emerging among policymakers that they must begin the process of monetary policy normalization. Exactly what normalization will entail remains to be seen and may include adjusting both the balance of assets and the size of the central bank's balance sheet. Any path to normalization likely begins with increases in the targeted federal funds rate. The baseline expectation is for two rate hikes in 2017, likely in the first and third quarters. The worst of the commodity price cycle has passed as prices of metals, agriculture products, and energy rise. The potential for acceleration in inflation is present (should global growth surprise to the upside) and would require the attention of policymakers if they are to maintain the stated inflation target of 2%.

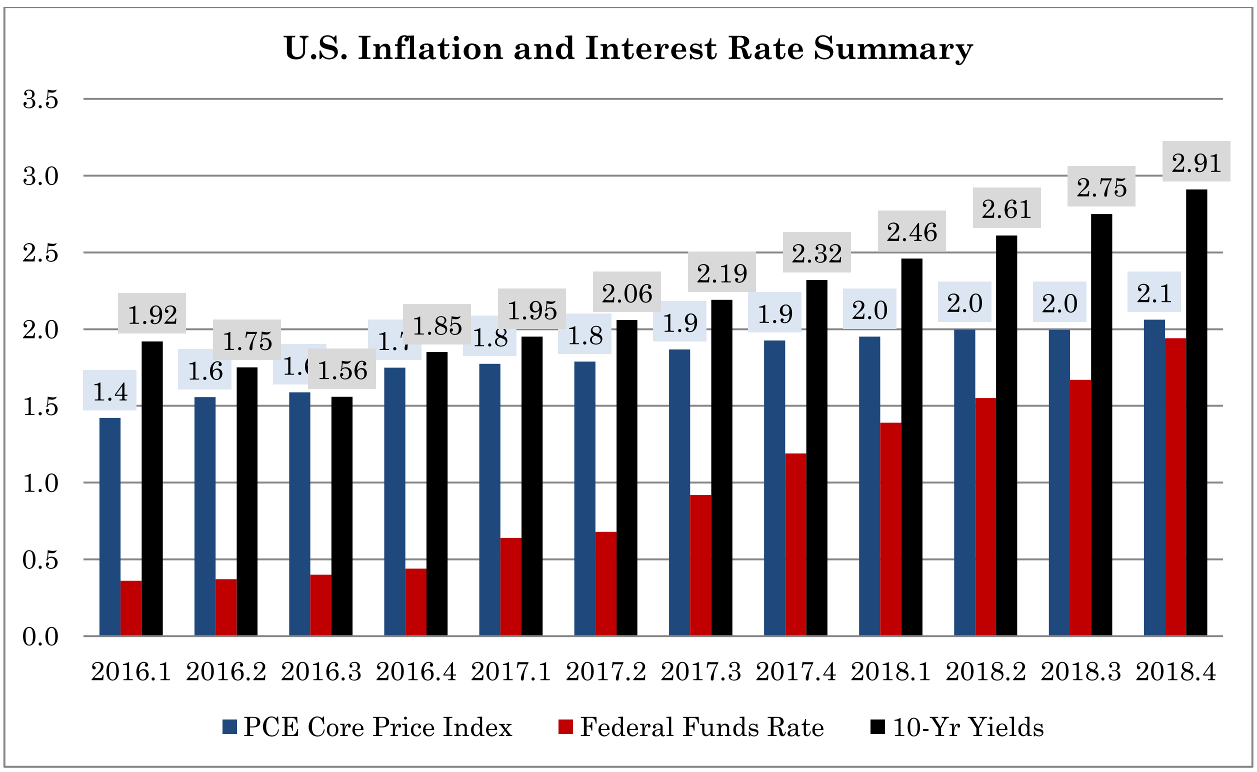


Figure 9: ***U.S. Inflation, Interest Rates, and Monetary Policy***

The Oklahoma Outlook

A year ago the outlook for 2016 was described as a lateral move disguising a modest expansion in Oklahoma City offsetting a modest contraction in the rest of the state. This description proved largely correct. As discussed previously, however, the inventory adjustment cycle that crimped national activity imposed constraints on economic activity in the state. Oklahoma City managed only a lateral move insufficient to fully counter the contraction in the rest of the state. Average monthly nonfarm and private sector payrolls fell in 2016 with the state averaging 8,000 fewer private sector jobs in 2016 than 2015.

The year ahead is anticipated to be a year of recovery and economic improvement. The depth of the improvement will depend on how early in the year the state's economy transitions to strength and how strong the second half of the year proves to be.

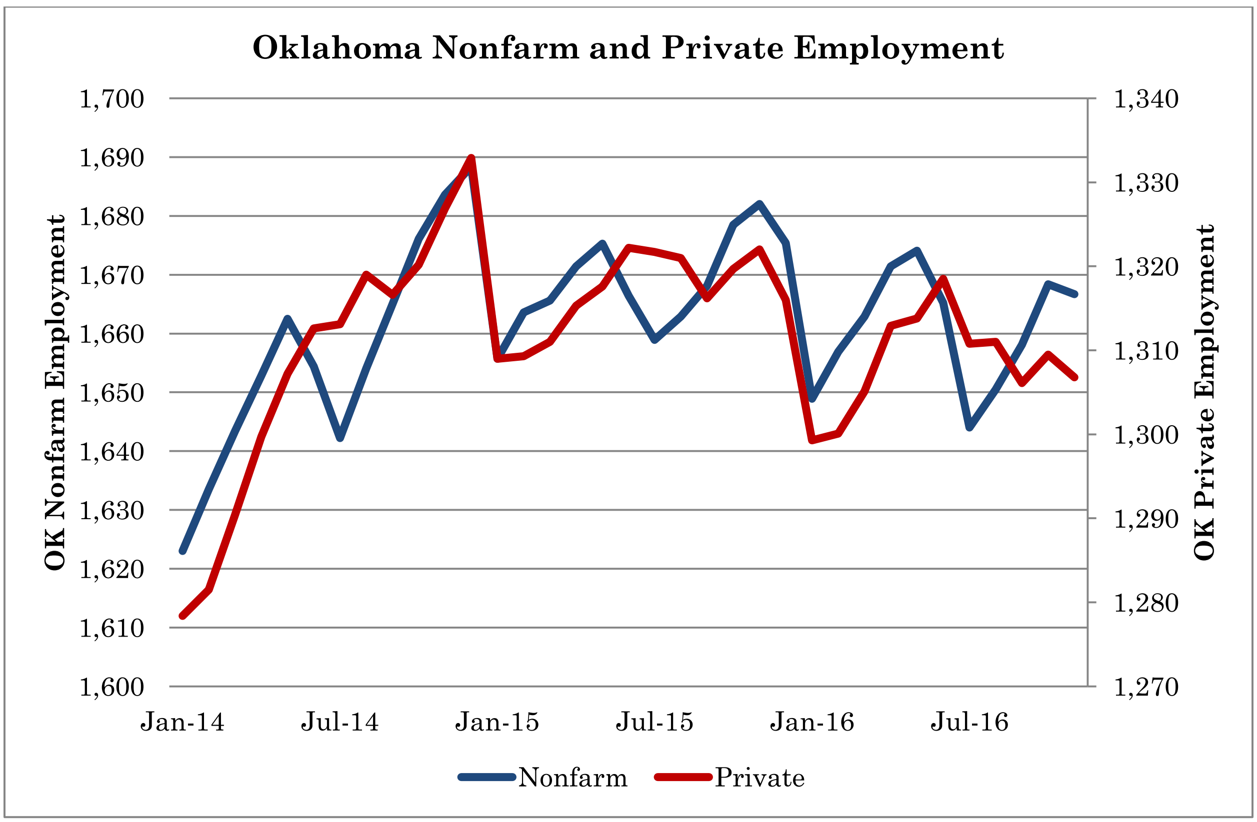


Figure 10: ***Oklahoma Nonfarm and Private Employment***

National recessions are measured in terms of successive periods of declining gross domestic product. It is less clear, however, that gross production is the best proxy for a regional economy's health and therefore gross state (or metro) product may not be the appropriate measure of aggregate economic well-being. Instead, regional economists generally prefer measures of employment and income. Following the great recession that stretched from December 2007 through June 2009, Oklahoma suffered a state recession as both state GDP and employment contracted sharply. The state then enjoyed a period of prolonged growth from the middle of 2010 through 2014 before oil prices peaked and the recent downturn ensued. As measured by gross state product, the state suffered a recession very similar to the experience of 2009. As measured by employment, however, the state narrowly skirted a significant recessionary period and instead drifted laterally through much of 2016 and into 2017. Baseline expectations remain for the state's economy to turn in 2017, transitioning by the end of the year to a level of activity very close to full economic health.

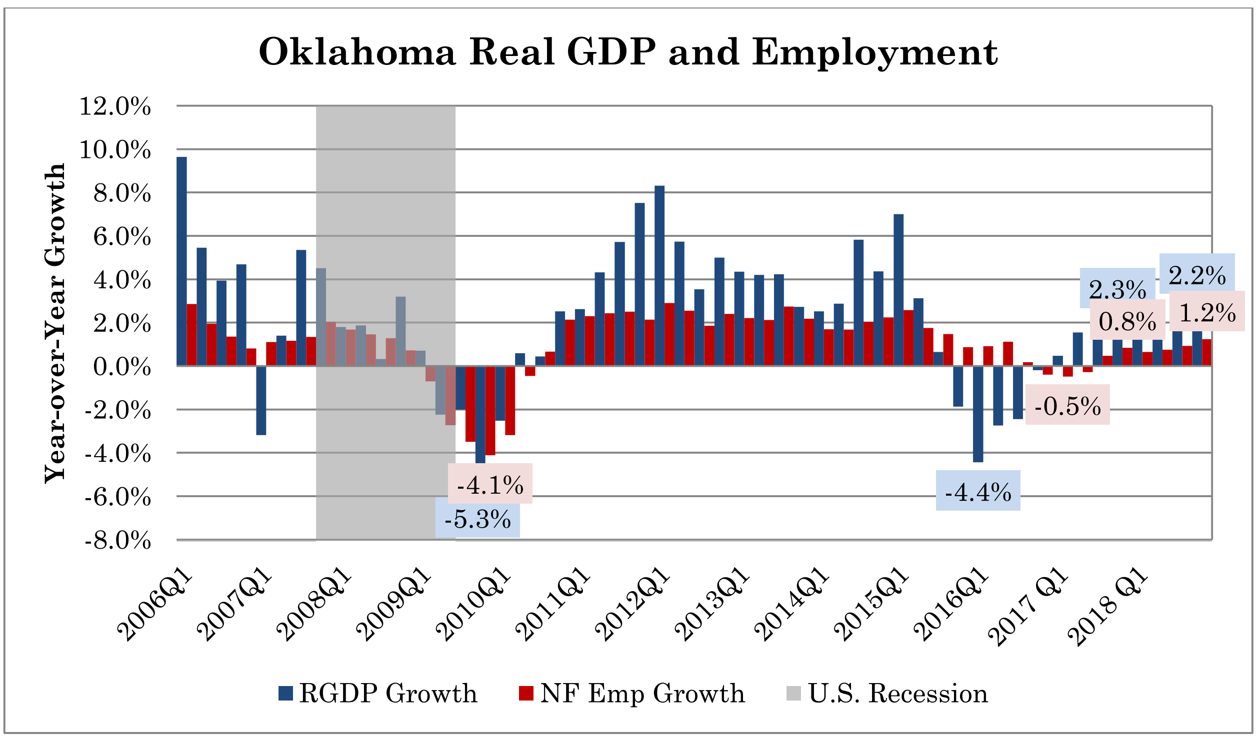


Figure 11*: Oklahoma Gross State Product and Nonfarm Employment*

The state's population currently stands at just under 4 million persons and continues to grow at annual rates just less than 1%. These population growth rates are expected to maintain, leading Oklahoma's population to break the 4 million barrier in the second half of 2018. The decline in commodity prices constrained an important source of income to many Oklahomans, curbing growth in income. Per capita income has stalled for several years and will enter the first quarter of 2017 at the same level as the last quarter of 2014. Per capita income is expected to return to growth in the latter half of 2017 and into 2018, reaching $47,690 by the end of the period.

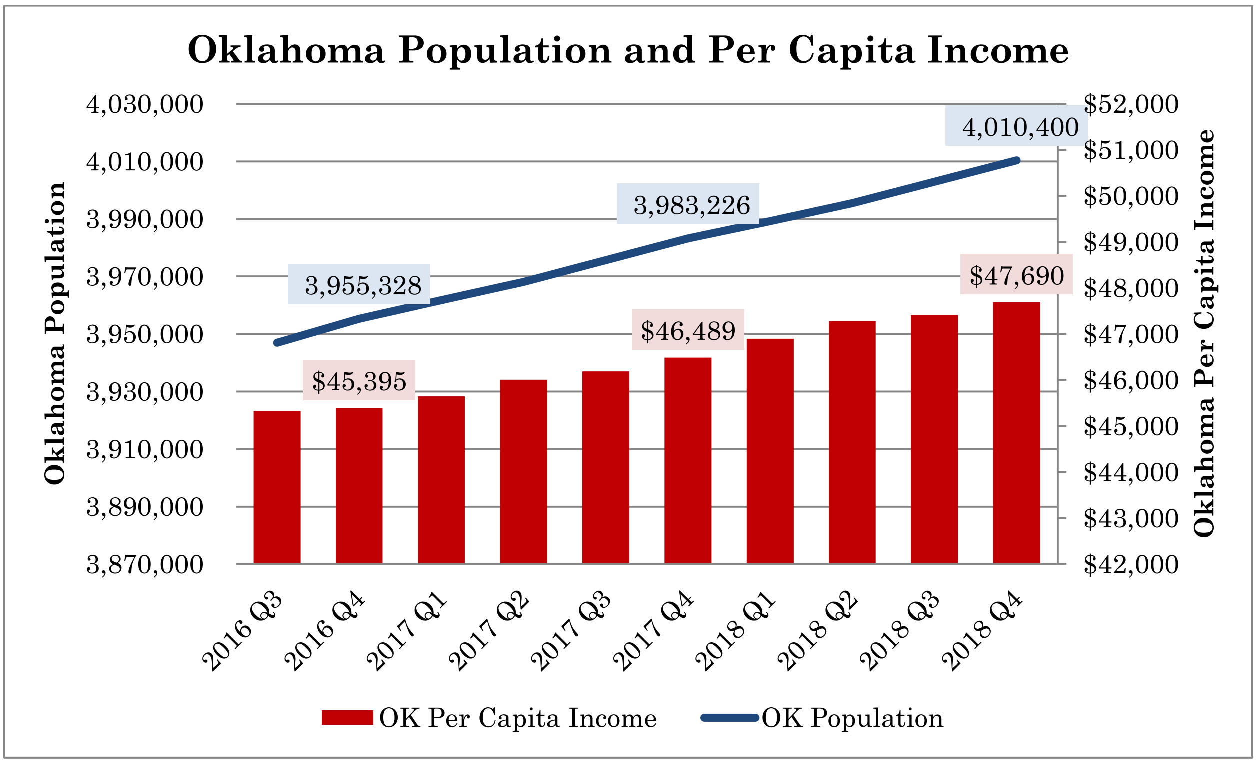


Figure 12: ***Oklahoma Population and Per Capita Income***

The year ahead will be a year of transition. Both national economic conditions and activity in the oil and gas sector are improving in a transition to something that resembles full health. Just as the state's economy was hit by the dual headwinds in 2016, it should benefit from dual tailwinds in 2017. Increases in drilling activities combined with a return to inventory accumulation will arrest the contraction in goods producing sectors. Similarly, improving economic conditions combined with persistent population growth will support a return to growth in the service sectors. The year ahead will mark a transition from an economic reality that feels less than satisfying at the beginning of the year to an economic reality that feels decidedly (and refreshingly) healthy by year's end. The significance of the improvement will be obscured in the numbers as the second half of the year will offset the first half of the year leaving the average annual level of employment little changed from 2016.

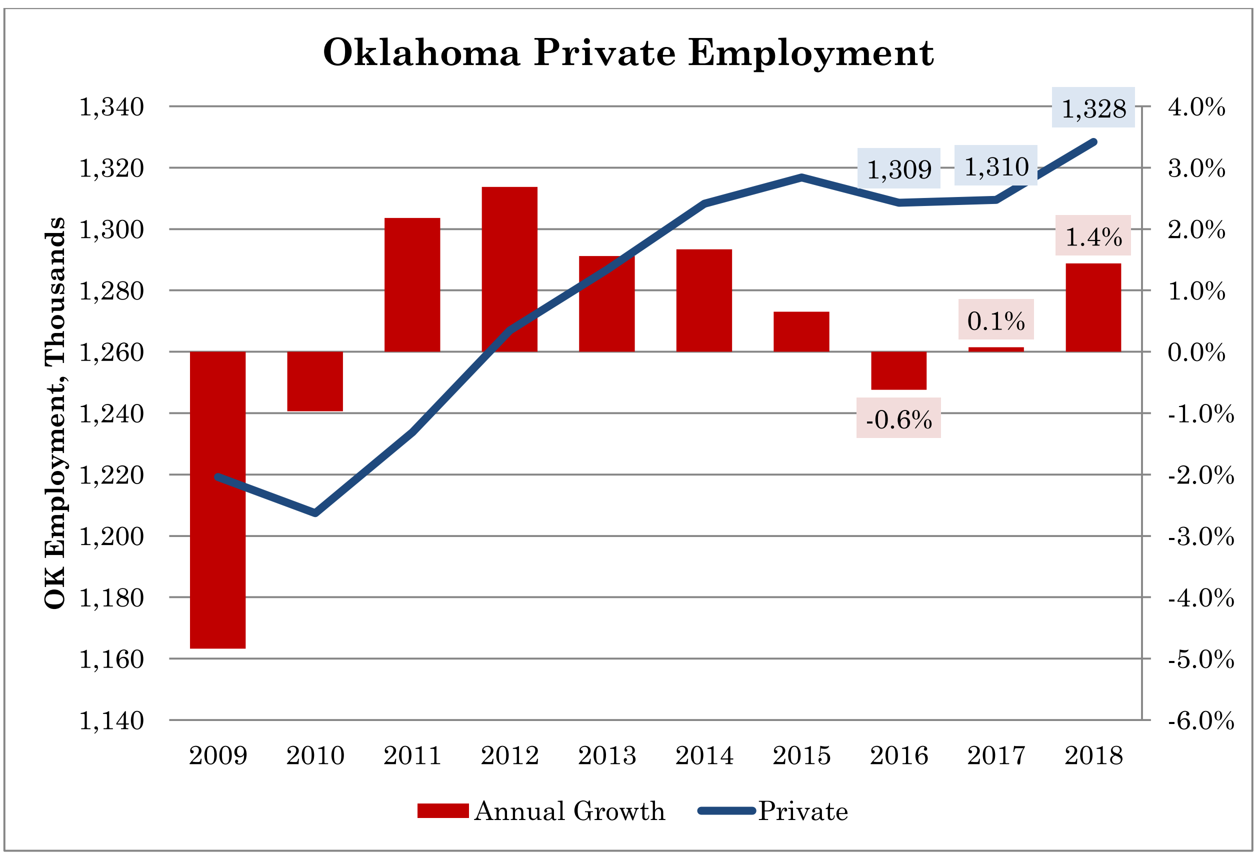


Figure 13: ***Oklahoma Private Sector Employment***

As indicated by the Bank SNB Oklahoma Energy Index, industry activity formed a bottom in the second half of 2016 that appears to be holding. Industry activity is slowly improving with commodity prices, rig activity, and equity prices all trending positively. Oil and gas employment continues to hold steady but has yet to show signs of significant gains. This will likely be the case for 2017 with hiring activity picking up in the second half of the year. The baseline expectation is for a holding pattern to dominate 2017 before growing at 3.7% in 2018.

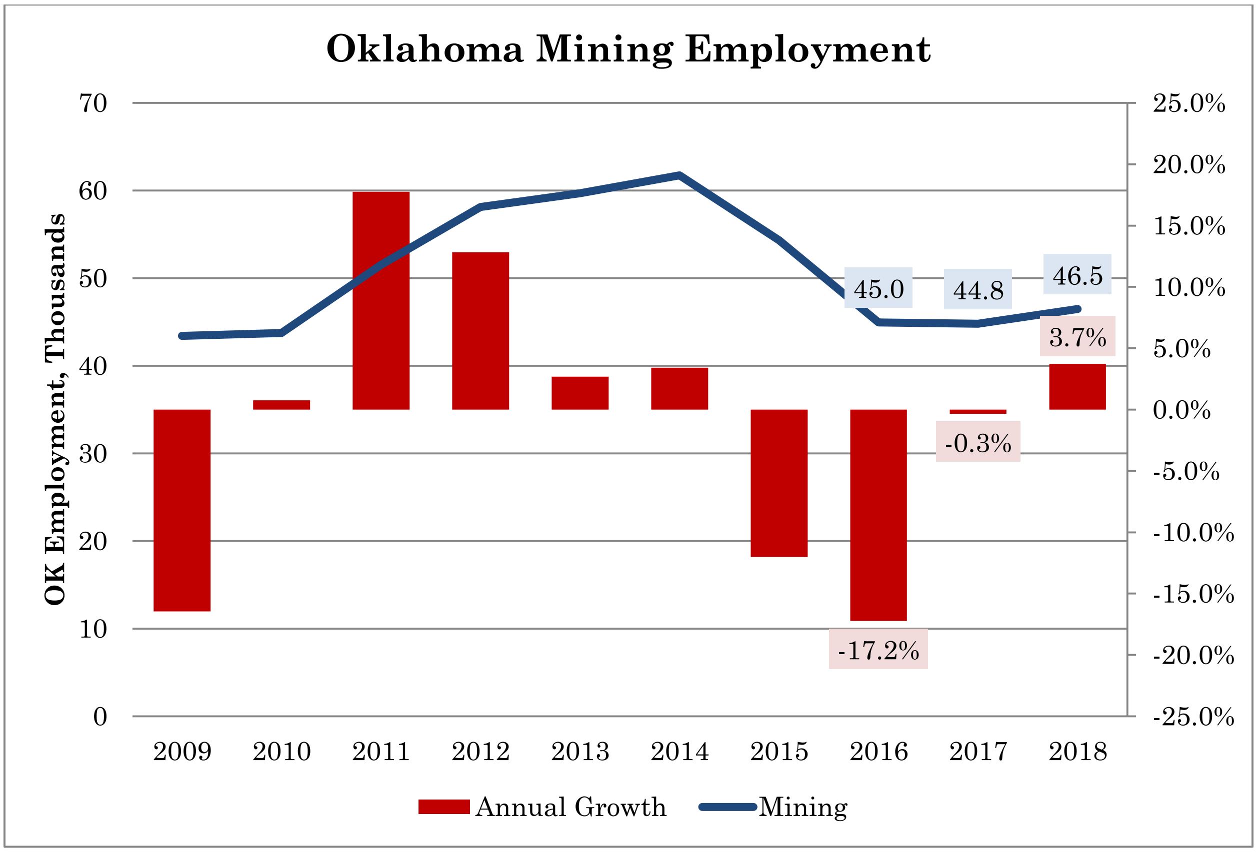


Figure 14*: Oklahoma Mining Employment*

Oklahoma manufacturing employment was among the hardest hit sectors of 2016. The experience of this sector mirrors that of conditions generally. Already vulnerable from a lack of oil and gas related equipment demand, goods production dropped precipitously with the inventory adjustment further contracting the industry. Payroll employment fell by 7.2% in 2016 and is expected to fall by 2.4% in 2017. This contraction in the average monthly manufacturing payroll disguises the expectation that conditions will improve substantially in the second half of the year. The strength is expected to carry into 2018 with 1.6% growth.

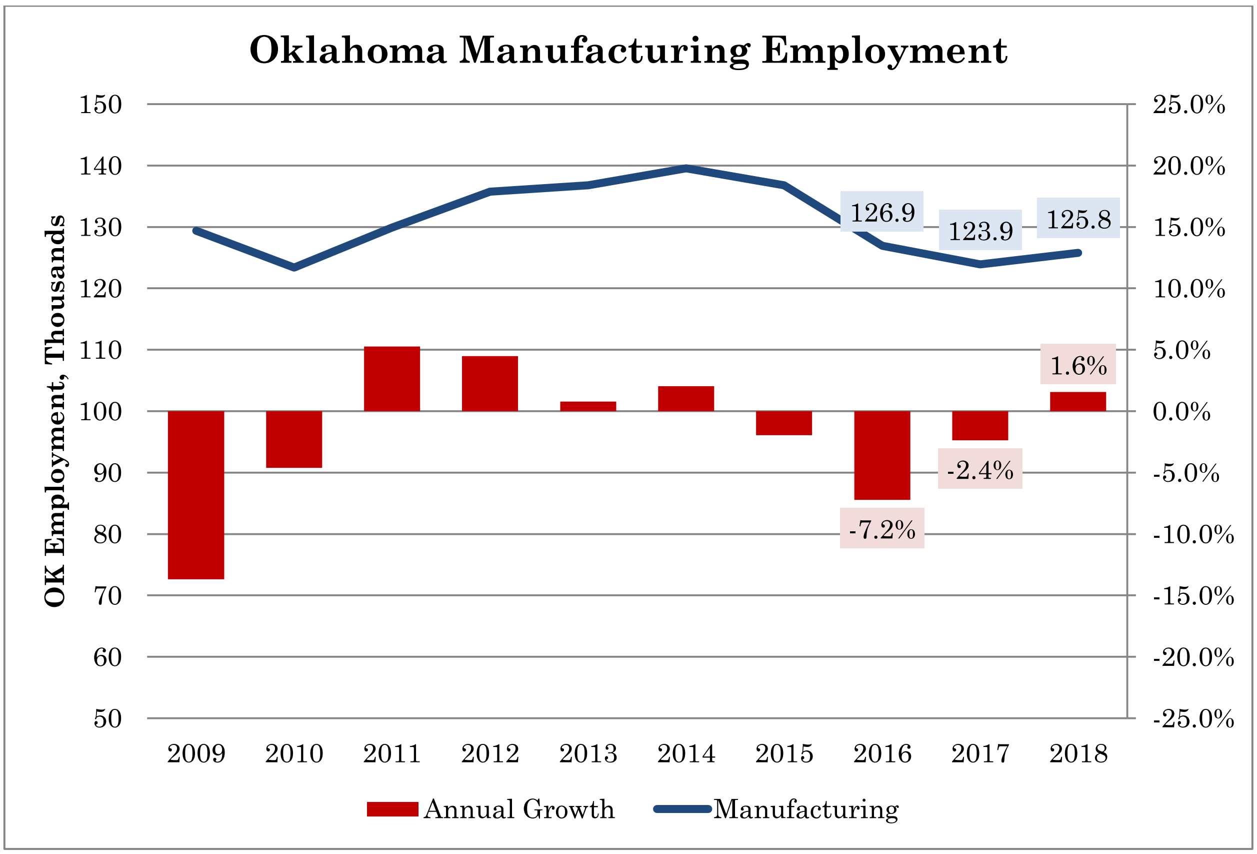


Figure 15: ***Oklahoma Manufacturing Employment***

Retail employment in the state managed to expand in 2016 in spite of the challenges in the broader economy. Baseline expectations are for the retail expansion to continue, but ebb a bit from the nearly 2.5% growth averaged in 2014 and 2015. Employment in the retail industry is expected to grow at a pace closer to its recent long run average posting gains of 0.4% and 1.0% respectively in 2017 and 2018.

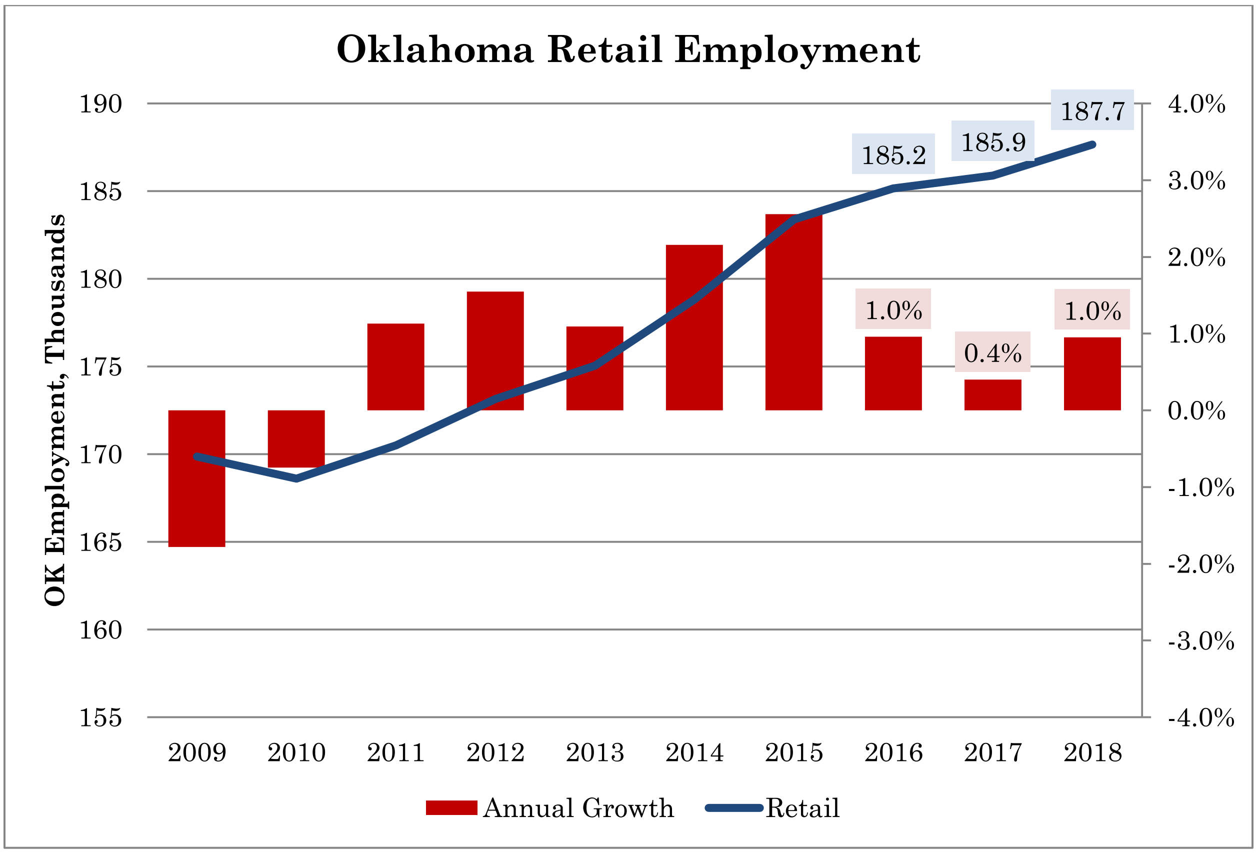


Figure 16*: Oklahoma Retail Employment*

Professional business services employment also experienced recession-like contractions in 2016. Average monthly payroll levels fell 2.6% from their 2015 mark with the biggest reductions coming in the administrative and support services and management subsectors. Lingering first half weakness is expected to dominate second half strength leaving the sector down 0.7% in 2017. Improving conditions will take positive momentum from 2017 into 2018 with the sector posting average monthly payroll gains of 2.1%.

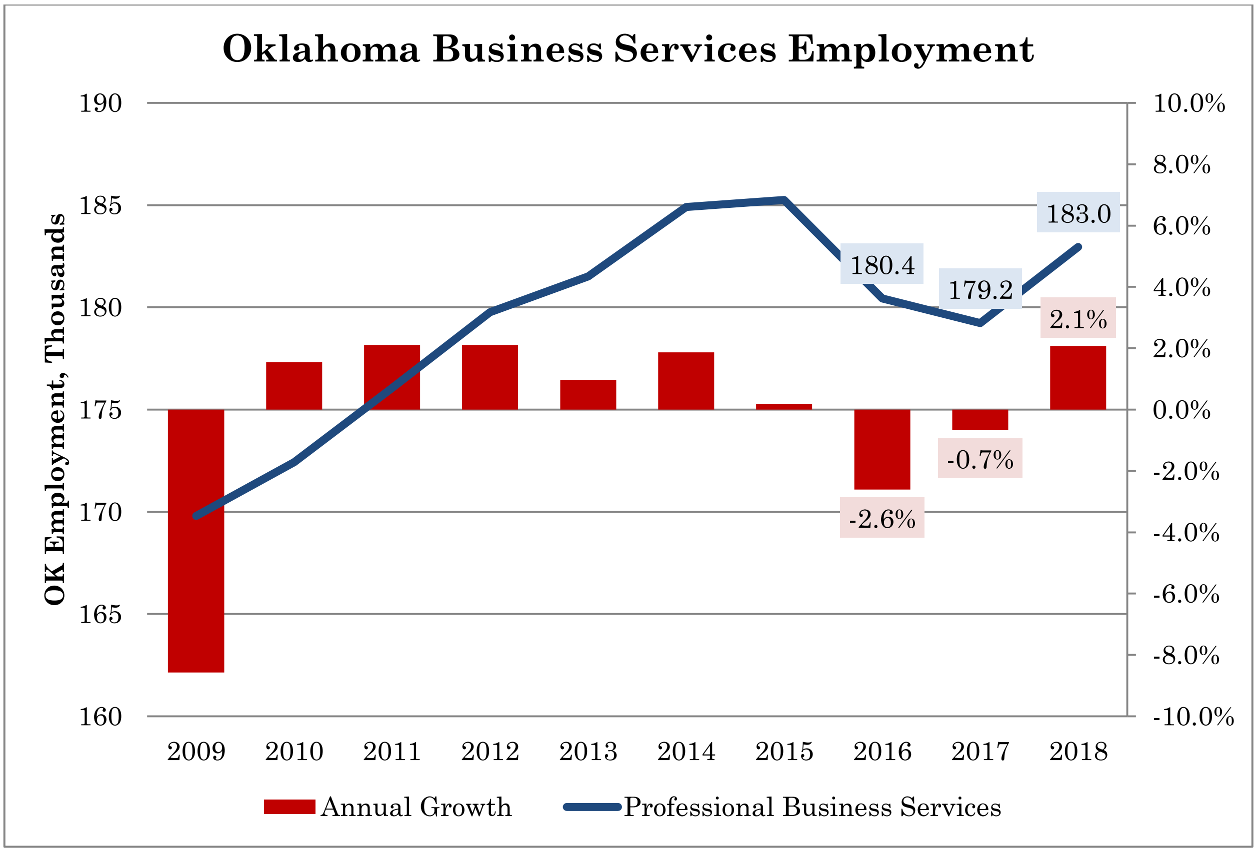


Figure 17: ***Oklahoma Professional and Business Services Employment***

Health services employment continues to grow with a state population that is both growing and aging. Growth in 2016 is estimated at 1.6%, just ahead of trend growth. Population influences will be joined by positive economic influences in 2017 leading expectations of continued growth. The pace of expansion is expected to slow modestly and return to trend with employment growth of 1.2% in 2017 followed by growth of 1.1% in 2018.

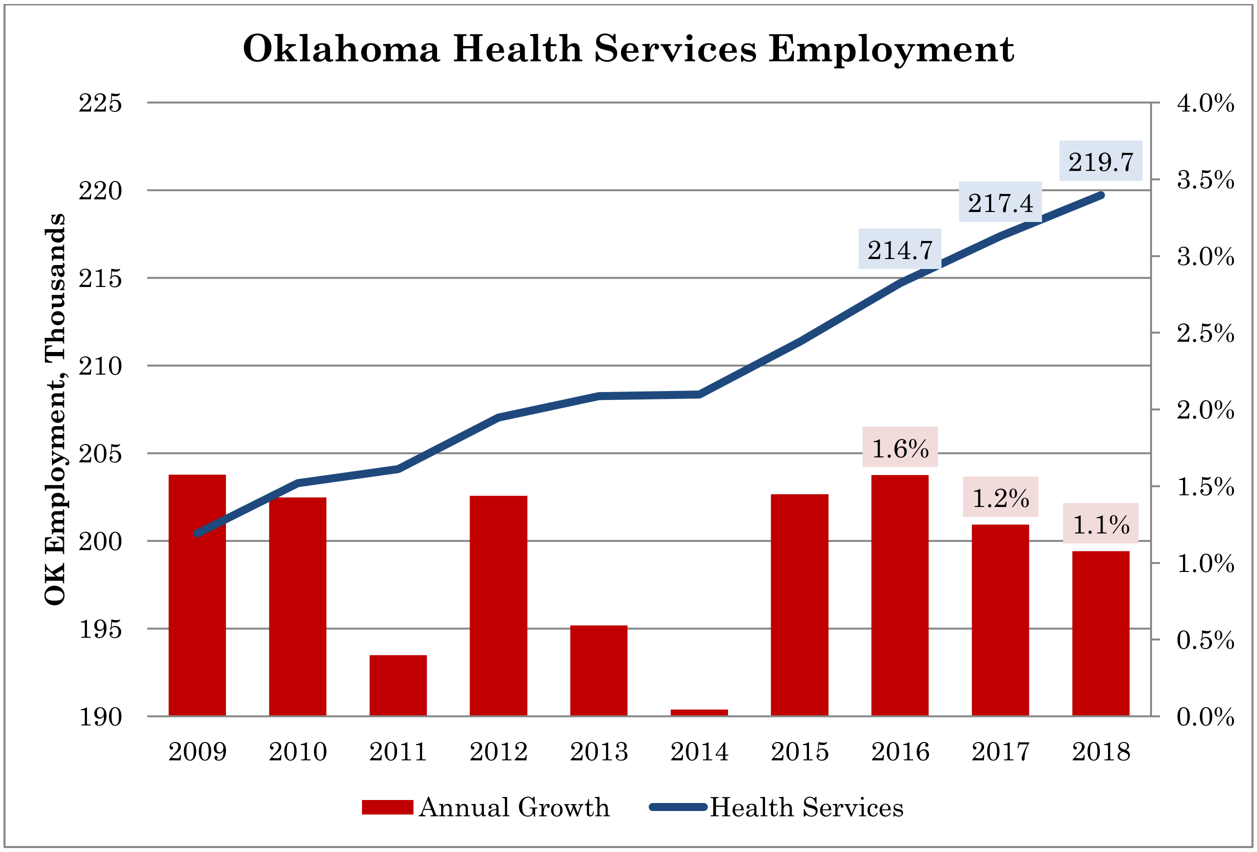


Figure 18: ***Oklahoma Health Services Employment***

Leisure services (arts, food, and accommodations) posted surprising growth in 2016 in spite of economic conditions. The industry is projected to have grown at its fastest rate in a decade posting 4.3% growth. Baseline expectations are that some of this activity is stolen from 2017, suggesting 2017 will post more modest growth of 0.7%. All of the growth in 2017 is expected to come from gains in the food and accommodations subsector. Current expectations are for 2.8% growth in 2018 that is both closer to trend and more broad across the sector.

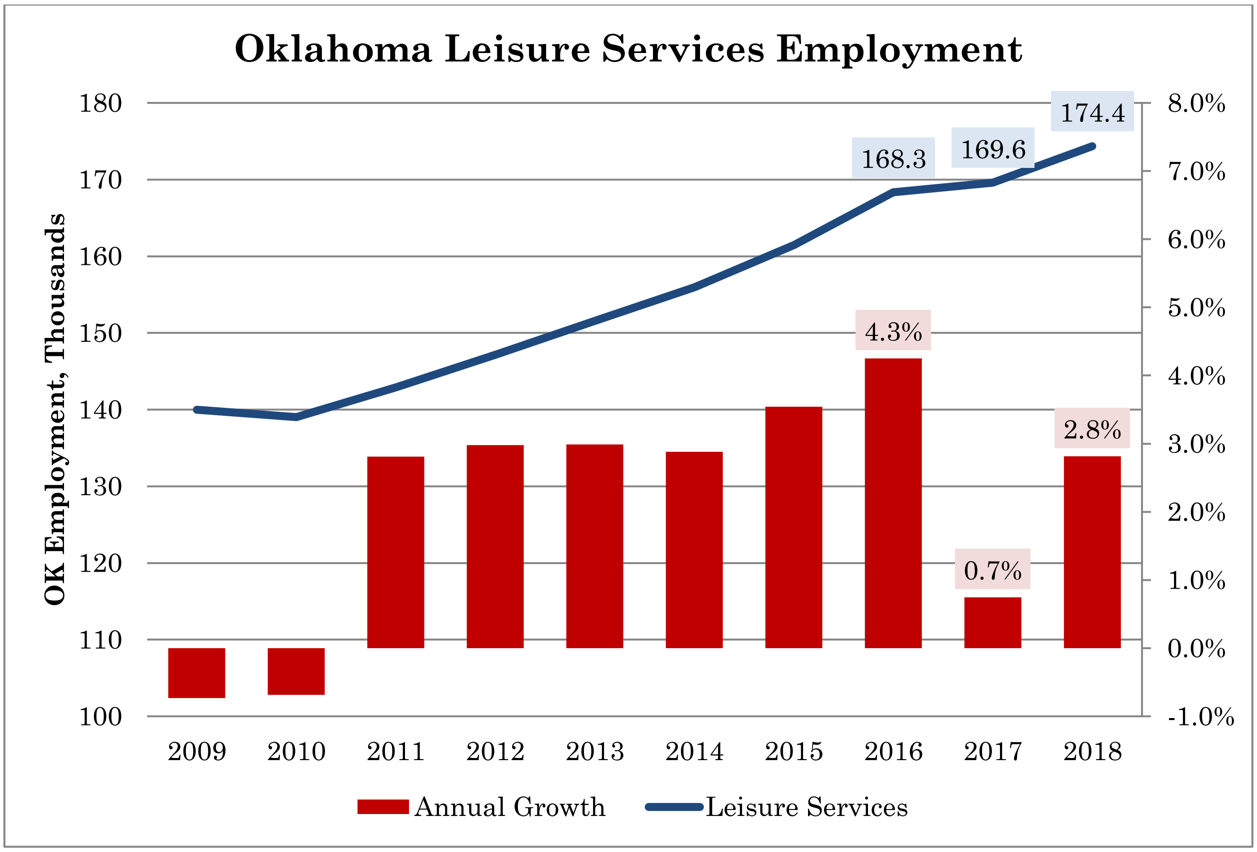


Figure 19: ***Oklahoma Leisure Services Employment***

The Oklahoma City Outlook

Oklahoma City gross metro product and personal income growth slowed in 2016 as national weakness coupled with local exposure stalled economic activity. Gross metro product reached $71.3 billion dollars in 2016, up a modest 2.3% for the year and the slowest rate of growth in the post-recession period. Personal income growth was even slower, expanding by only 1.6%. Both metro product and personal income are expected to resume solid growth in 2017 with gross metro product climbing by 3.0% to $73.5 billion and personal income growing by 3.9% to $66 billion. Both measures are expected to maintain strength into 2018.

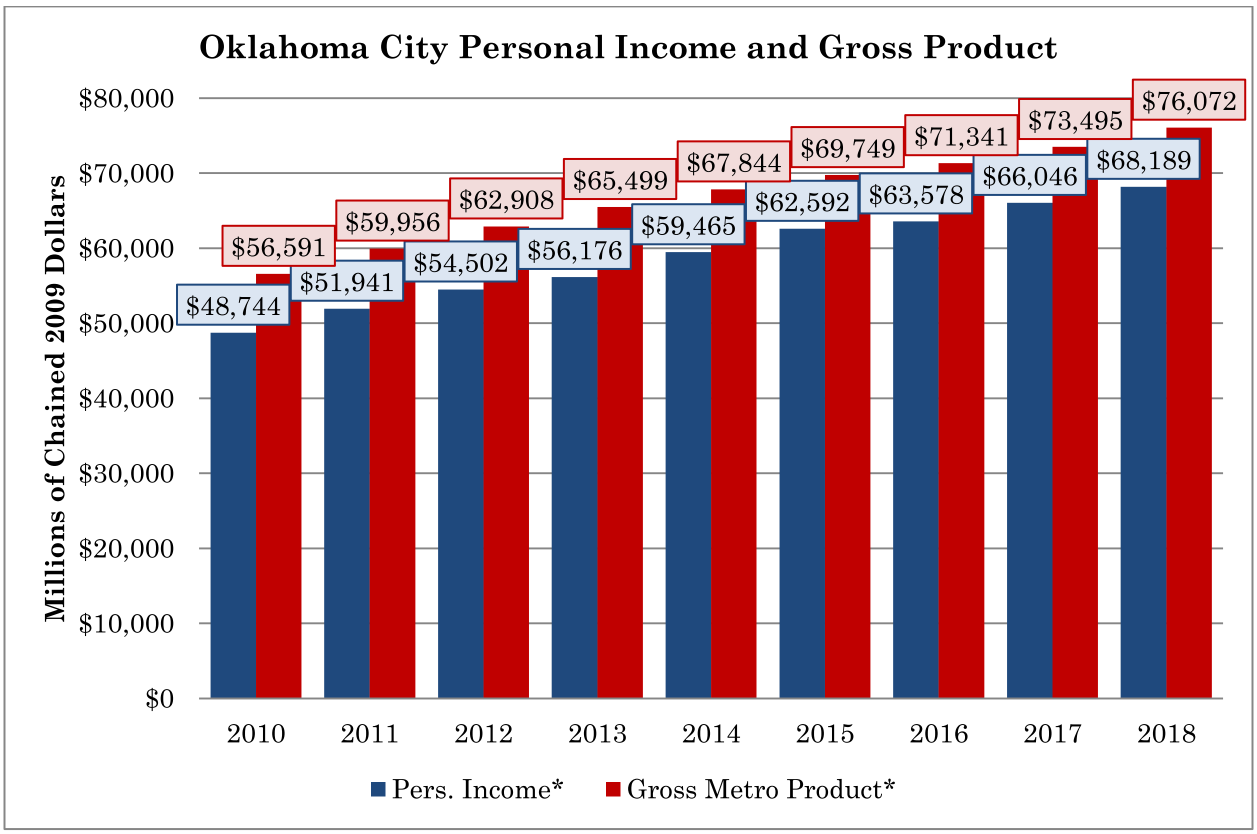


Figure 20: *Oklahoma City Income and Metro Product*

Oklahoma City's population continues to grow at an average annual rate of 1.6% trending towards 1.4 million in 2018. Slowing income growth combined with population gains are projected to leave per capita income unchanged in 2016 at $46,064. Per capita income is expected to return to growth in 2017 and 2018 at rates of 2.2% and 1.6% respectively. Baseline expectations are for per capita income to reach $47,818 by the end of the forecast period.

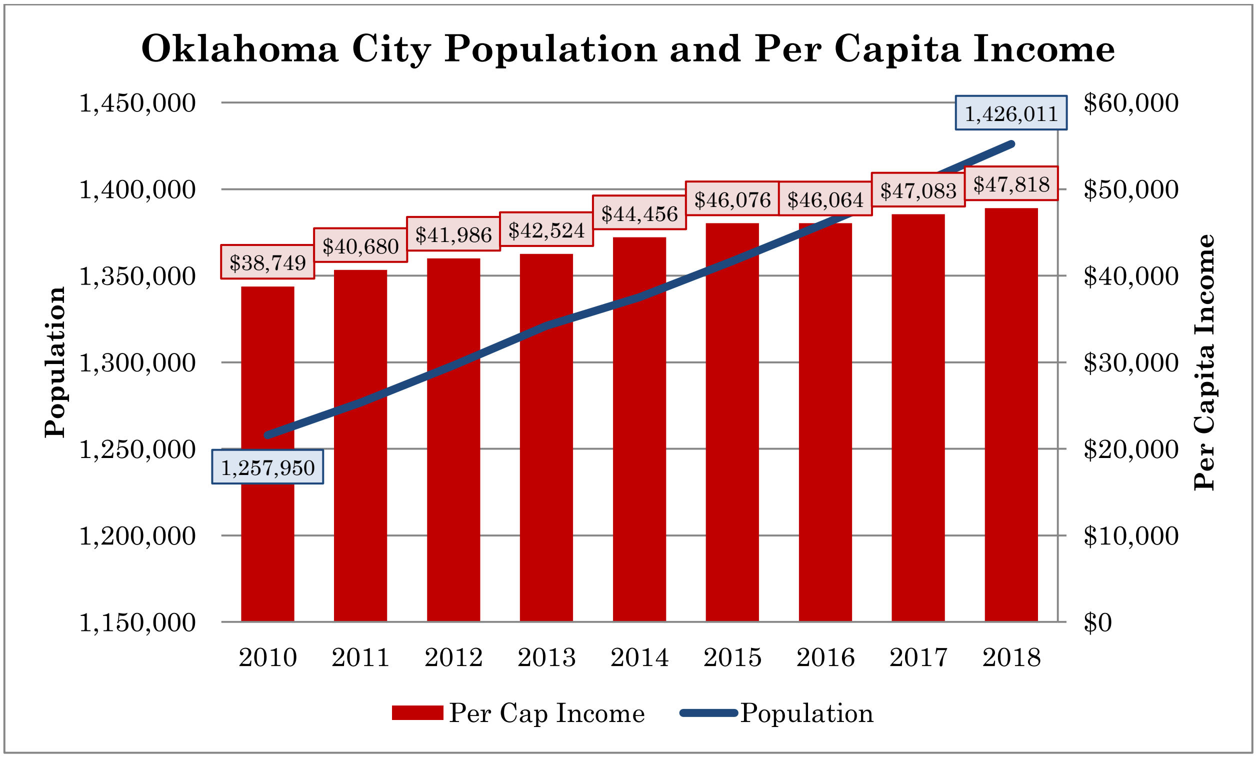


Figure 21*: Oklahoma City Per Capita Income*

Oklahoma City nonfarm employment growth slowed considerably in 2016 with preliminary numbers indicating falling year-over-year employment in the second half of the year. The local economy is at an inflection point, with year-over-year employment expected to reverse from losses to gains by late spring. Solid growth in the second half of the year should be sufficient to post a 0.7% increase in average monthly payroll levels. Nonfarm payrolls are expected to average 637.2 thousand positions in 2017 before growing by 1.9% in 2018 to 649.1 thousand. Baseline expectations are for the second half of 2017 to feel like an economy at full health with 2018 posting numbers that match that reality.

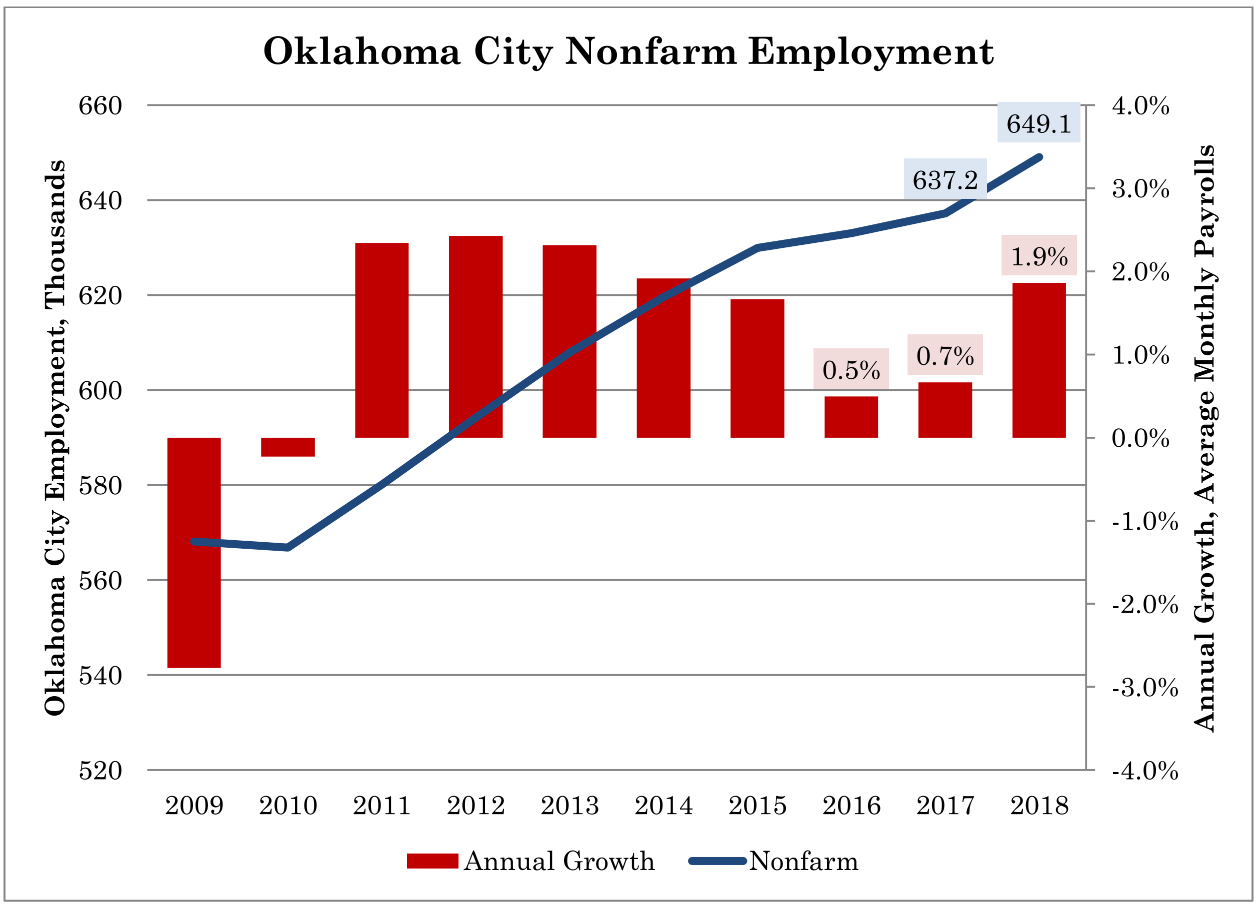


Figure 22: ***Oklahoma City Nonfarm Employment***

Oklahoma City private employment stalled in 2016 before yielding to an outright contraction in the latter half of the year. Private payrolls will manage a modest gain for the year (0.3%) before gaining traction in 2017. Private payrolls will turn positive on a year-over-year basis in the spring of 2017, growing throughout the end of the year. Baseline expectations are for average monthly private payrolls to expand by 0.7% in 2017 before posting robust growth in 2018 more typical of Oklahoma City's post-recession experience at 2.4%.

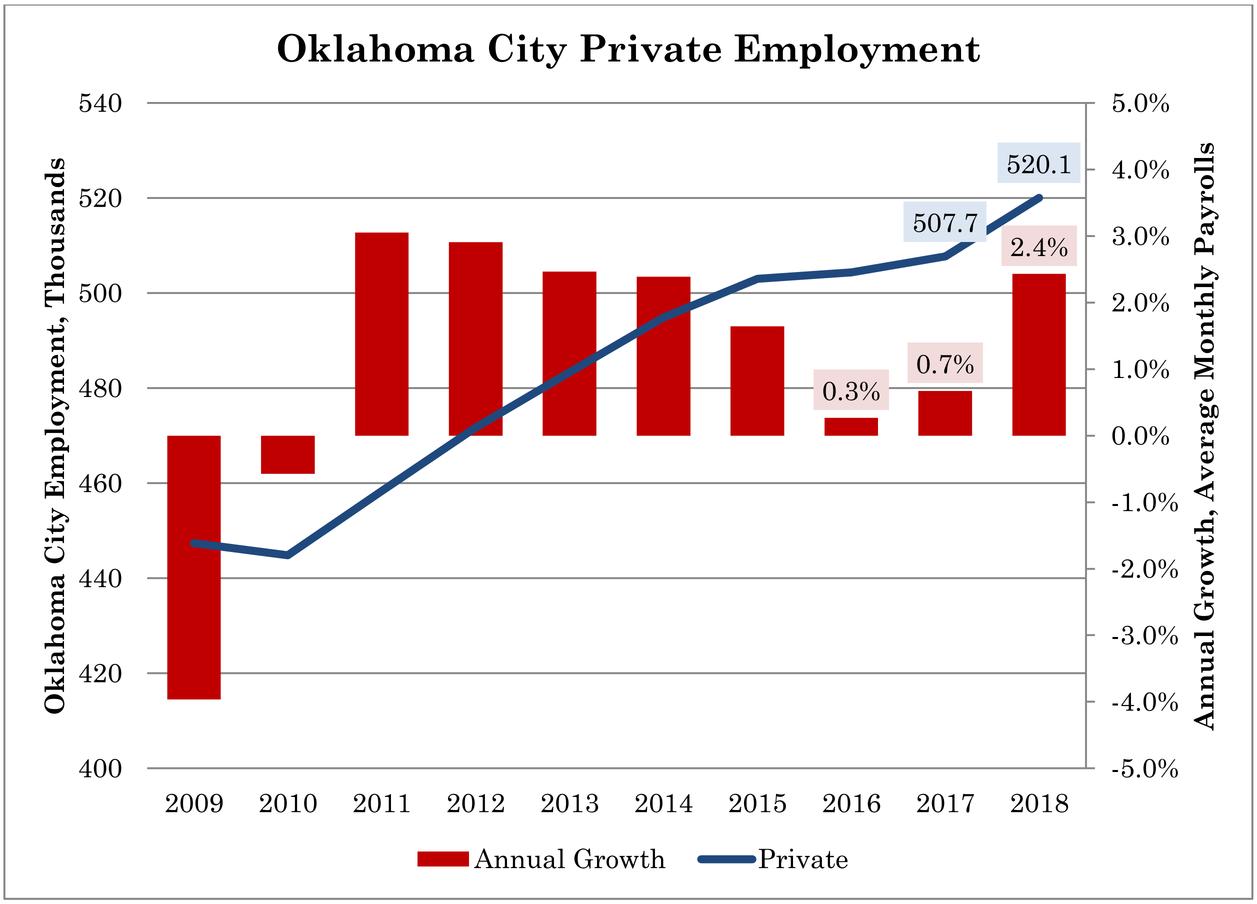


Figure 23: ***Oklahoma City Private Employment***

Oklahoma City's oil and gas employment base contracted for two consecutive years in 2015 and 2016 as prices and drilling activity pushed unforeseen lows. Local employment in the industry fell through 2016 but has since stabilized at a level near 15,000 payroll positions. Employment is expected to hold steady around this level early in 2017 before returning to a modest expansion by the spring/summer. In total, average annual employment levels will be modestly lower in 2017 but will be exhibiting significant growth heading into 2018. Discussion is developing around the inability to find skilled workers willing to return to the oil field having been soured by the experience of the last two years and similar reticence may be expected from those returning to office positions. We don't anticipate any labor market reluctance sufficient to curb growth as the industry recovers; we do anticipate the industry to make considerable strides towards full health in 2017 and 2018.

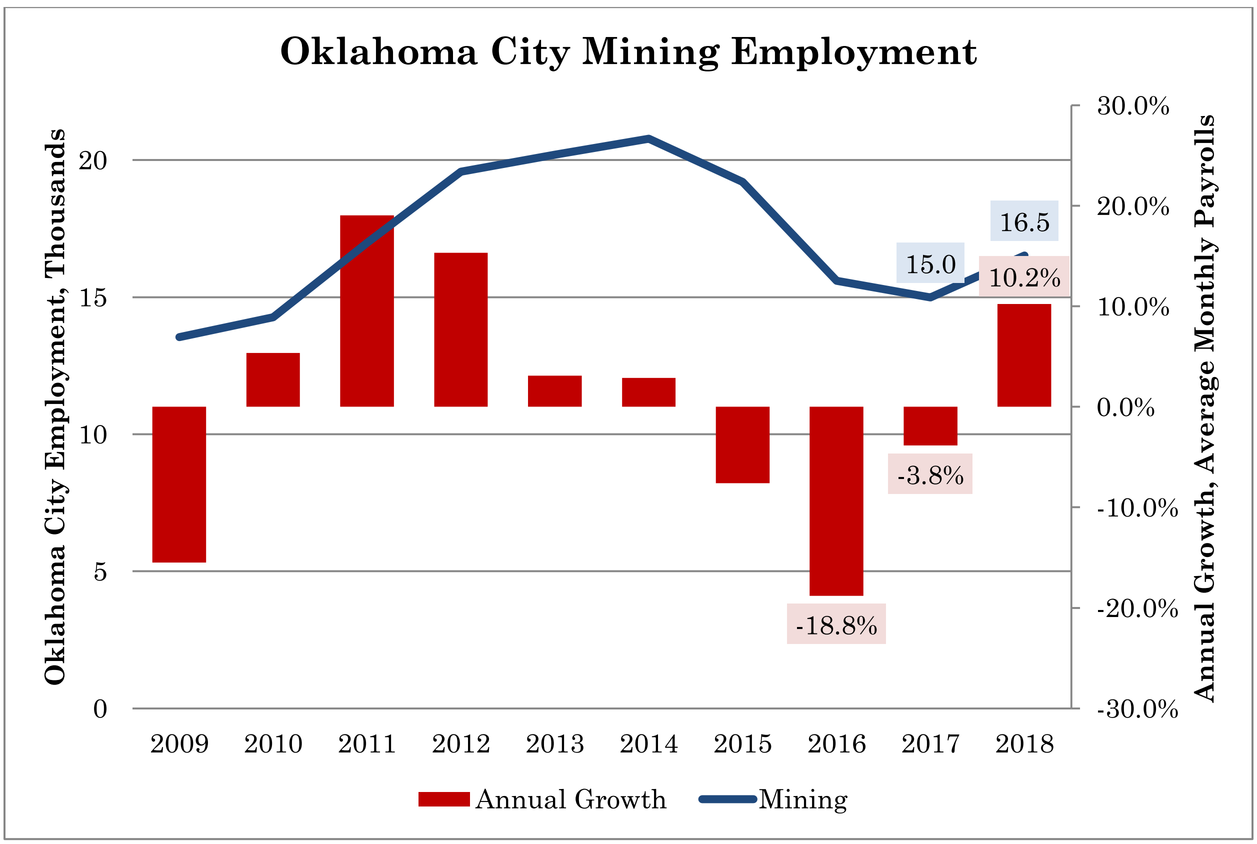


Figure 24: ***Oklahoma City Mining Employment***

Oklahoma City manufacturing employment contracted with the sharp decline in goods production experienced statewide. Average annual manufacturing payrolls fell by 4.3% in 2016. This trend is expected to reverse over the course of 2017 as both national activity and local oil and gas activity rebound. The net effect will be little change in average payroll size in 2017 and modest growth in 2018. Not included in the forecast is any assumption as to the industrial development and trade policies to be pursued by the new Trump administration with its associated effect on the U.S. manufacturing sector.

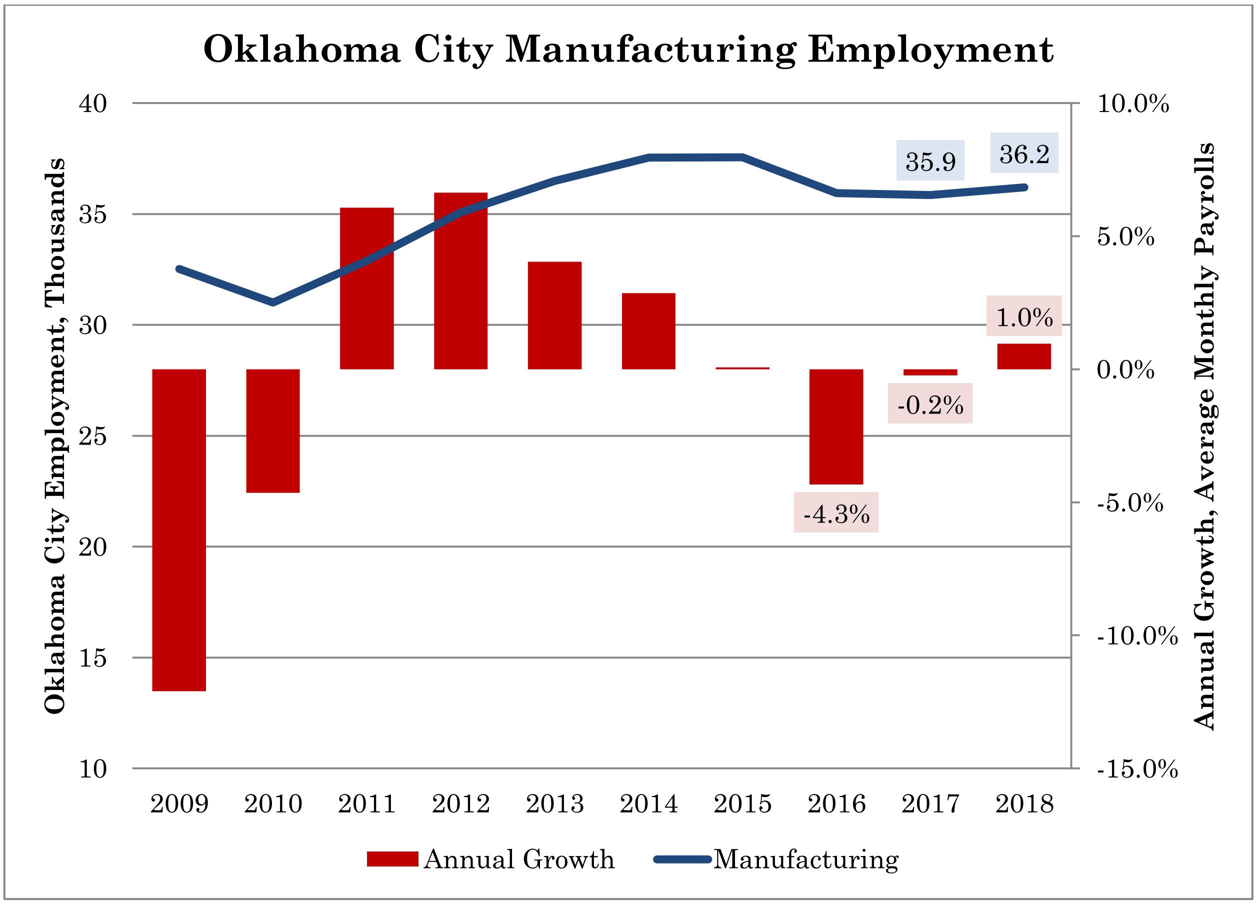


Figure 25: ***Oklahoma City Manufacturing Employment***

Retail employment slowed to 1.2% in 2016 as general economic weakness combined with broader shopping trends slowed retail development. Improving economic conditions will help in 2017 but challenges to the sector will remain from national movements away from large retailers and towards online shopping. Baseline expectations are for average monthly retail payrolls to grow by 1.6% and 2.6% in 2017 and 2018 respectively.

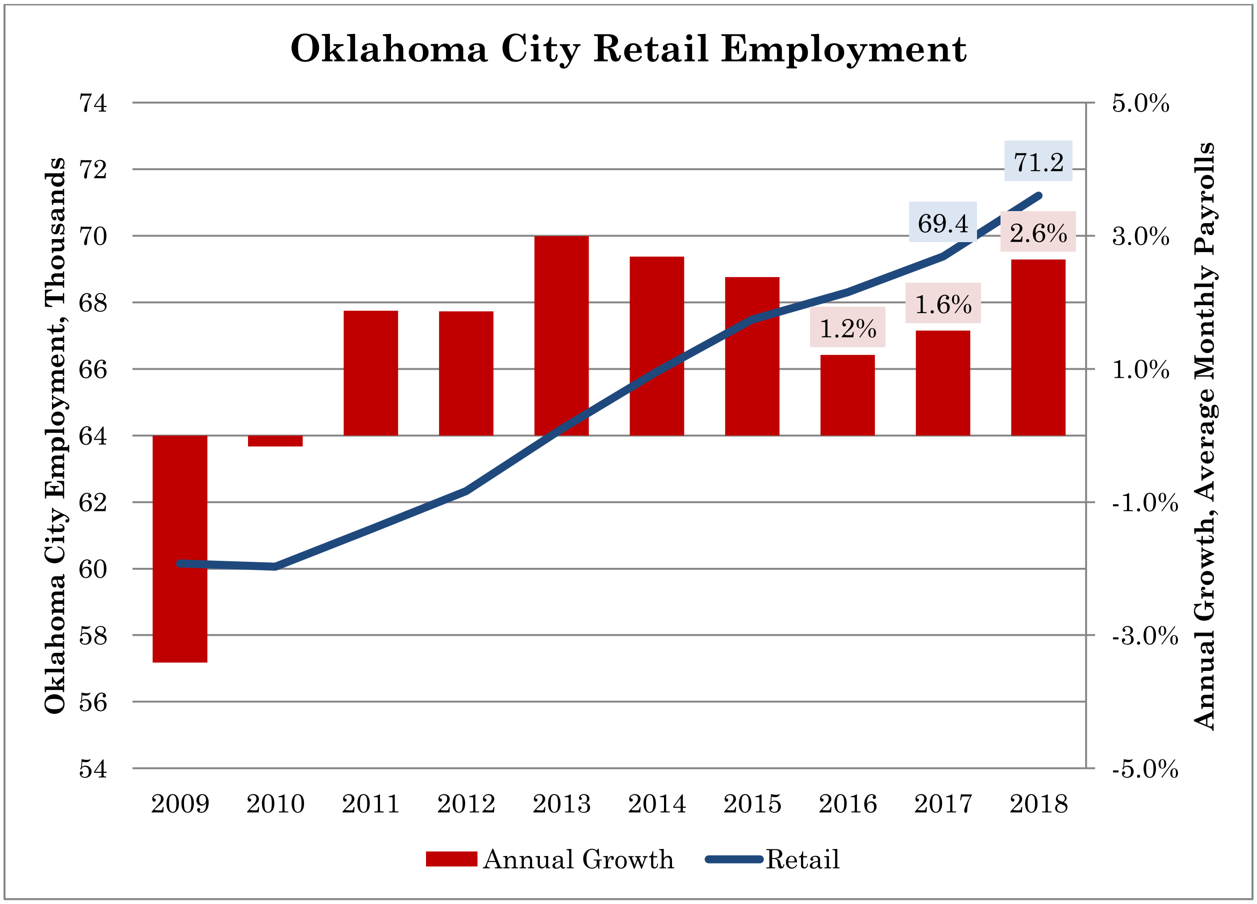


Figure 26: ***Oklahoma City Retail Employment***

Urbanization and population demographics continued to drive predictable increases in health services employment. The recent experience suggests some ebb and flow in the growth with high growth years followed by periods of slower growth as population trends build up and pressure the next wave. Health services employment grew at 3.5% in 2016, the sector's fastest rate of growth in the post-recession period. Baseline expectations are for growth to ease modestly in 2017 to 1.8% - a level roughly equal to the post-recession average. Health sector employment will carry into 2018 with baseline expectations for 1.3% growth.

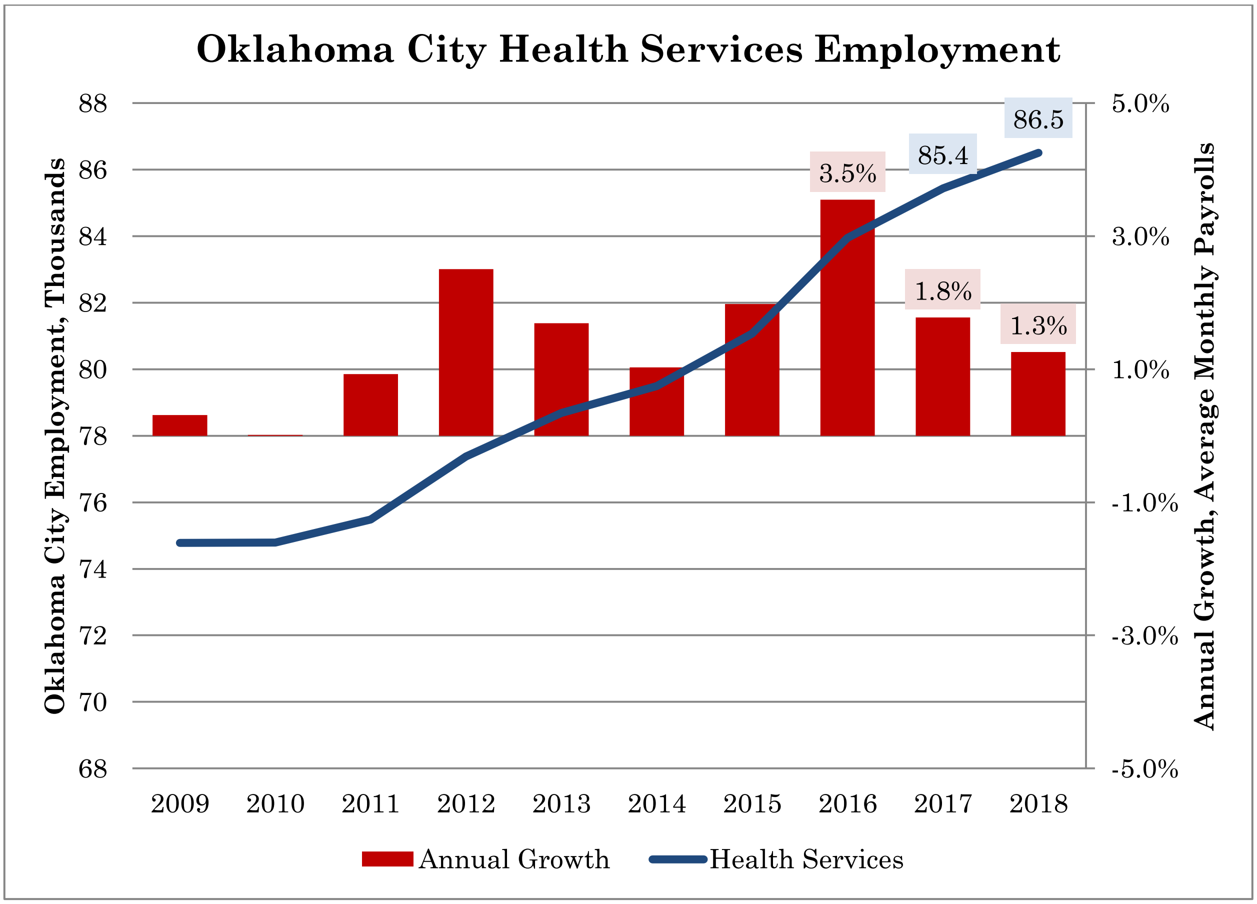


Figure 27: ***Oklahoma City Health Services Employment***

Similar to the expectations for overall employment, leisure services employment is expected to carry lingering weakness into early 2017 before turning to growth in the spring of 2017. The second-half strength is expected to draw largely from growth in the food services and accommodations subsector and will carry into 2018. Growth in leisure services employment will continue to follow population movements with increased urbanization expected to bring leisure service sector jobs to the urban core in the years ahead. Average monthly payrolls are expected to grow by 1.6% in 2017 with growth accelerating to 3.8% in 2018.

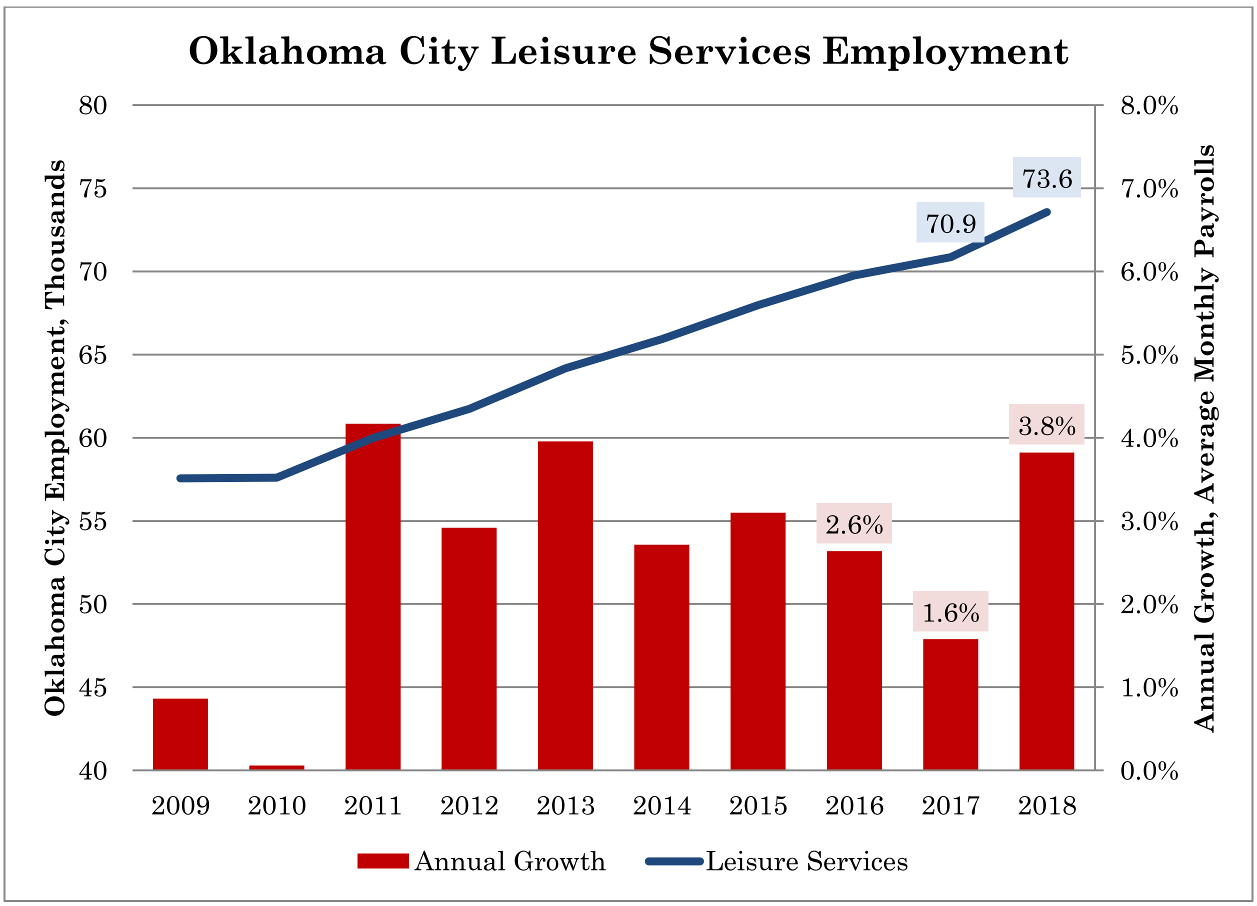


Figure 28*: Oklahoma City Leisure Services Employment*

Oklahoma City's labor market moved laterally in 2016 posting almost not growth in the metro area labor force. At the same time, unemployment rates in both Oklahoma City and Oklahoma County increased to 4.2% and 4.3% respectively. Modest labor force growth is expected in 2017 with little change in local unemployment rates. Labor force growth more consistent with economic expansion is expected for 2018 with unemployment rates trending towards 4% in both the city and county.

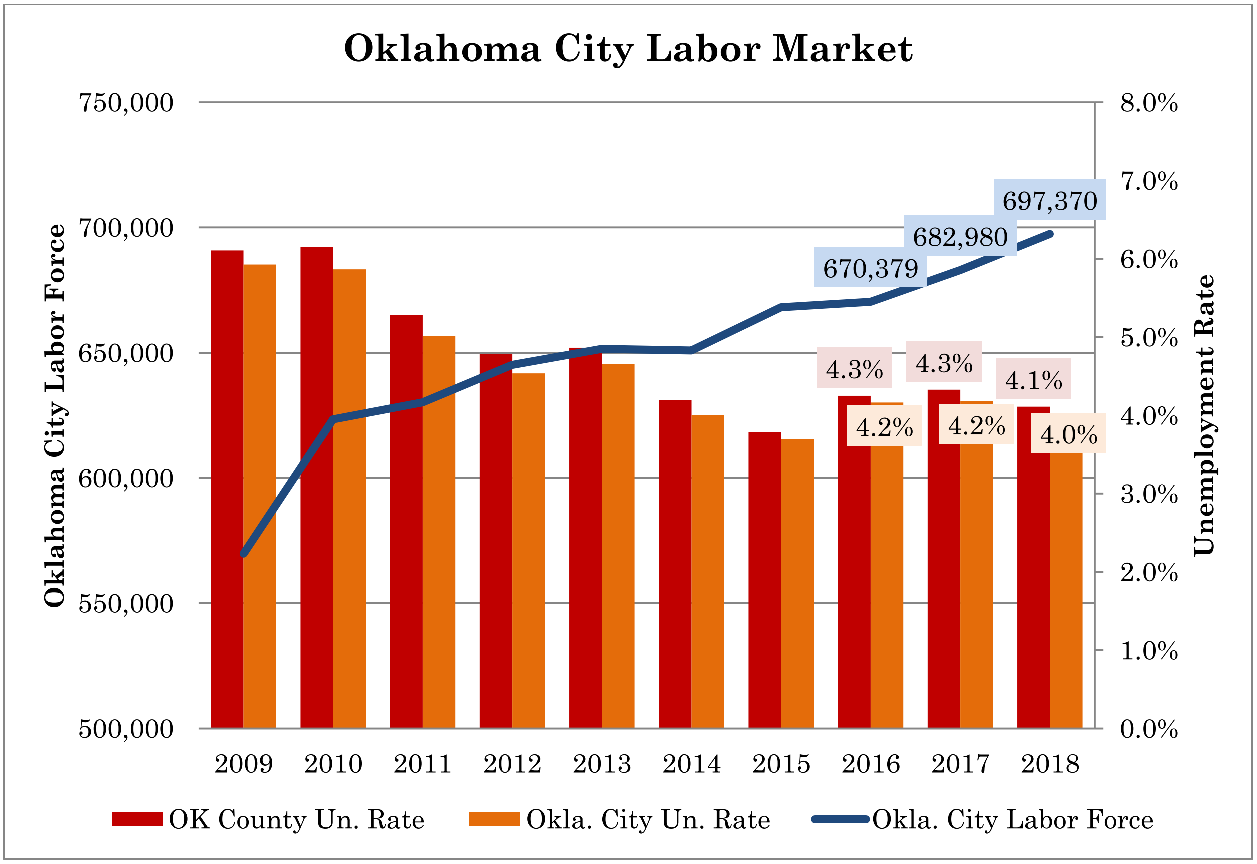


Figure 29: ***Oklahoma City Labor Force and Unemployment Rates***

The Oklahoma City Fiscal Outlook

A year ago the fiscal discussion centered on the weakened state of the economy and the city's pronounced vulnerability to any national weakness. Baseline expectations for fiscal year 2017 ranged from -0.1% to 1.4% with much depending on the ability of sales tax collections to match previous seasonal peaks.

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

Figure 30: ***Oklahoma City 2016 Fiscal Outlook Revisited***

The accompanying table is a reproduction from the 2016 presentation with the added column reporting the actual growth in sales tax collections for February 2016 through January 2017. A year ago the look ahead to the end of the fiscal year pointed towards four of the final five months of the fiscal year showing declining revenue. The forecast called for the final five months to average declines of -2.3% while the realized collections averaged declines of -2.6%. Heading into the current fiscal year, models anticipated the first three checks of the fiscal year to be below year-ago levels. This anticipation was met by reality, but in every case the actual decline was greater than predicted. The extent of the decline early in the fiscal year was difficult to explain in the context of the economic information available at the time. By late September national data were painting a clear picture of the protracted inventory cycle dampening U.S. activity to its slowest growth in the post-recession period. The U.S. weakness hit hardest areas already vulnerable from declining oil and gas activity. The October 2016 check confirmed the additional layer of economic weakness in the local economy and would eventually be substantiated by other economic data. The national inventory cycle following directly the regional commodity cycle created a recession-like environment for local sales tax collections. The recession-like environment was manifest in local household employment dynamics.

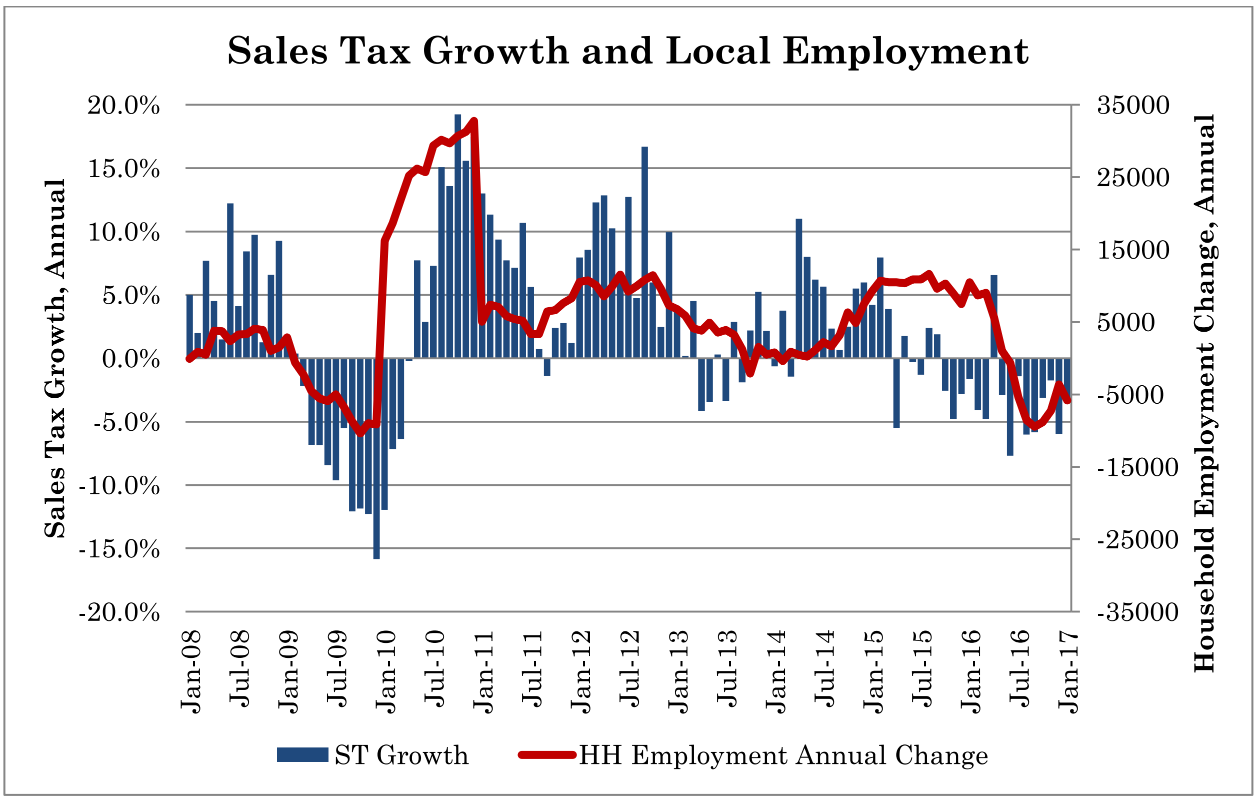
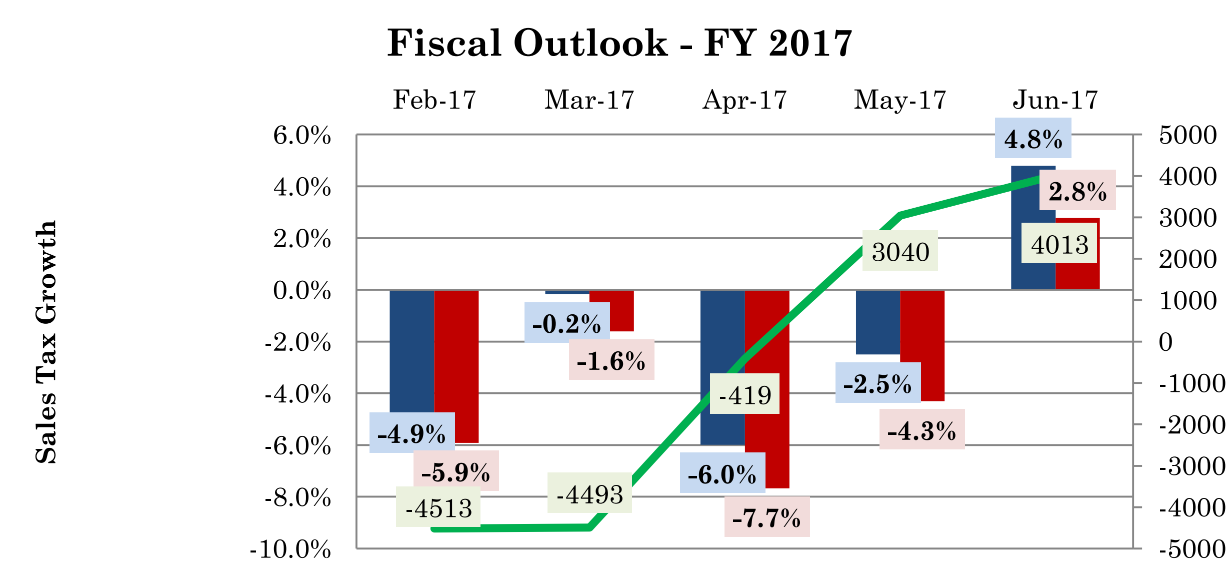


Figure 31*: Local Sales Tax Growth and Household Employment*

In spite of weakness in the state's primary sector, household employment changes (annual differences) remained positive through May 2016. By June 2016, the layers of economic weakness were sufficient to turn household employment growth negative and with it pull tax collections into a pattern reminiscent of a mild recession. The outlook is for challenging conditions to remain through the end of fiscal year 2017 as local economic conditions (and local household employment) move back to growth in late spring. Household employment is expected to turn positive in May with sales tax collections to follow into positive territory in June.

Monthly forecasts are generated using two distinct statistical models with one better suited for short run forecasting and the other for the long run. Both provide a similar look into the remaining five months of the fiscal year. Expectations are for a February check that is down -4.9 to -5.9%, followed by a modestly negative March, a steeply contracting April, a down May, before posting growth in the final month of the fiscal year.



	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Short Run Model	-4.9%	-0.2%	-6.0%	-2.5%	4.8%
Long Run Model	-5.9%	-1.6%	-7.7%	-4.3%	2.8%
Employment Change	-4513	-4493	-419	3040	4013

Figure 32: ***Fiscal Year 2017 Detailed Outlook***

Before concluding with a discussion of the early fiscal expectations for FY 2018 a few comments on the forecast models and performance may be useful. All fiscal forecasts presented are predicated on the underlying economic forecast. That is, the fiscal projections accept as given the reality of the economic projections embedded in their models. To provide an illustration of the forecast performance, given known economic conditions, both models are estimated for the known sales tax collections of the last six months. For illustration purposes, the only information withheld from the model is the true sales tax collection. The model does know the true economic observation for the corresponding month. Using known monthly outcomes in county household employment, citywide payroll employment, and citywide earnings, the following forecasts were generated. The accompanying figure compares the actual growth (in blue) with that predicted by the short run model (red) and the long run model (green).

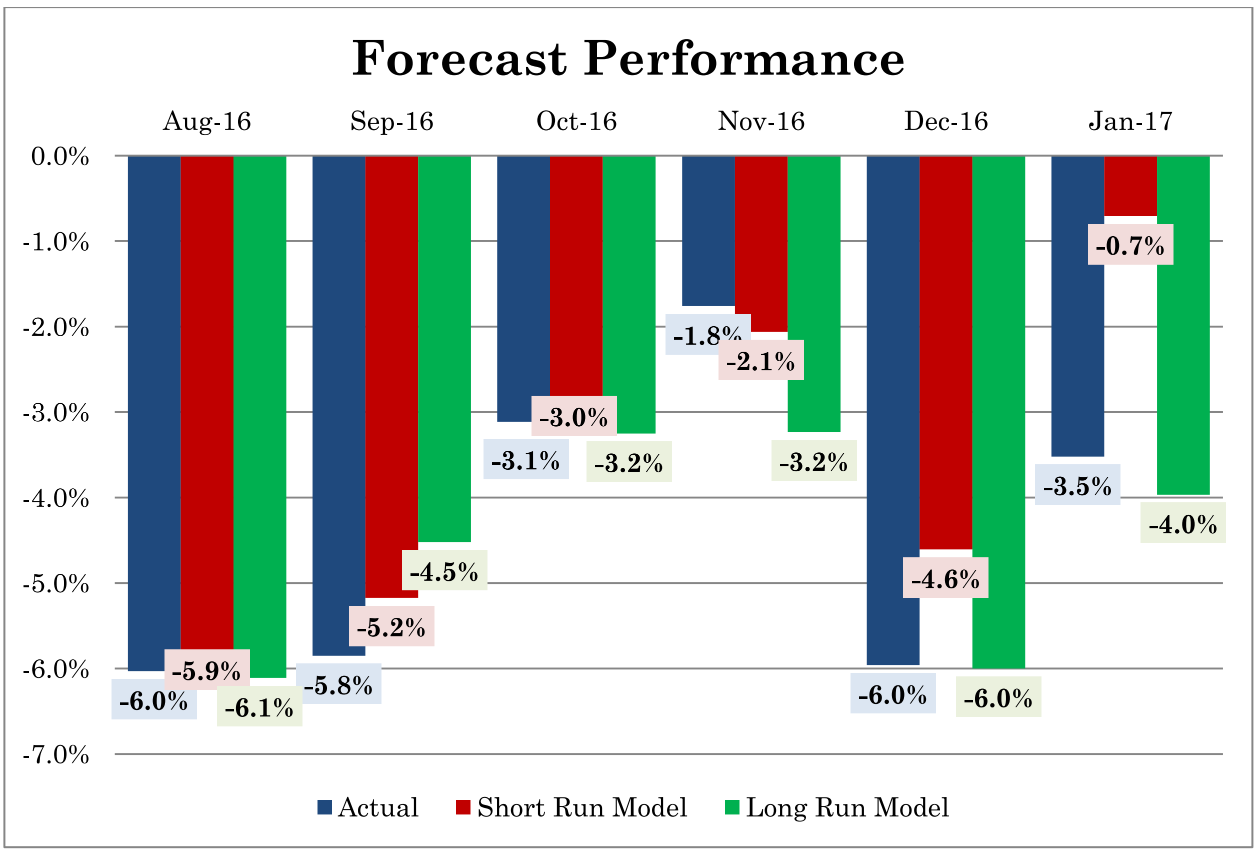


Figure 33: *Forecast Illustration and Performance*

The forecasting approaches yield reasonable predictions given knowledge of the economic environment. Both approaches appear useful with the short run model performing slightly better in the first four months and the long run model offering a better prediction in months five and six. For completeness, the predictions of both models are reported but should not be thought of as alternative scenarios (baseline and optimistic, for example). Rather, the models simply represent alternative statistical approaches to the same forecasting question.

The local economy is at an inflection point transitioning from a prolonged period of weakness to full health. Baseline expectations are for local sales tax collections and local labor market conditions improve through the spring of 2017, posting continuous gains through fiscal year 2018.

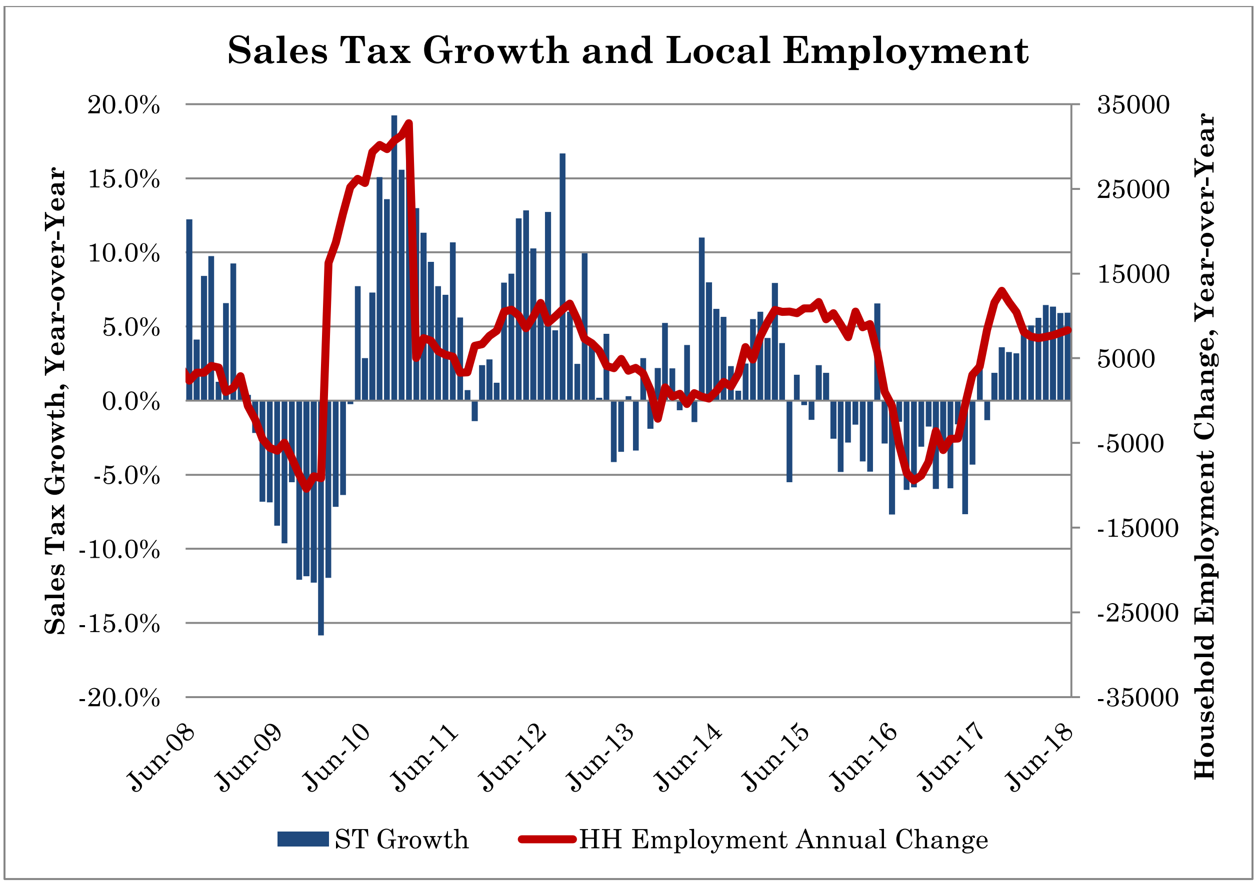


Figure 34: ***Sales Tax Growth and Household Employment***

Sales tax growth is expected to return to local collections no later than August 2017 and carry through fiscal year 2018. The transition to growth will not occur in time to change the reality of a recession-like experience of fiscal year 2017. Baseline expectations are for the current fiscal year to conclude down -3.0% to down -3.8% from FY 2016. The turn in economic conditions will coincide with the turn in the fiscal year leading fiscal year expectations of sales tax growth in the range of 3.8% to 4.2%.

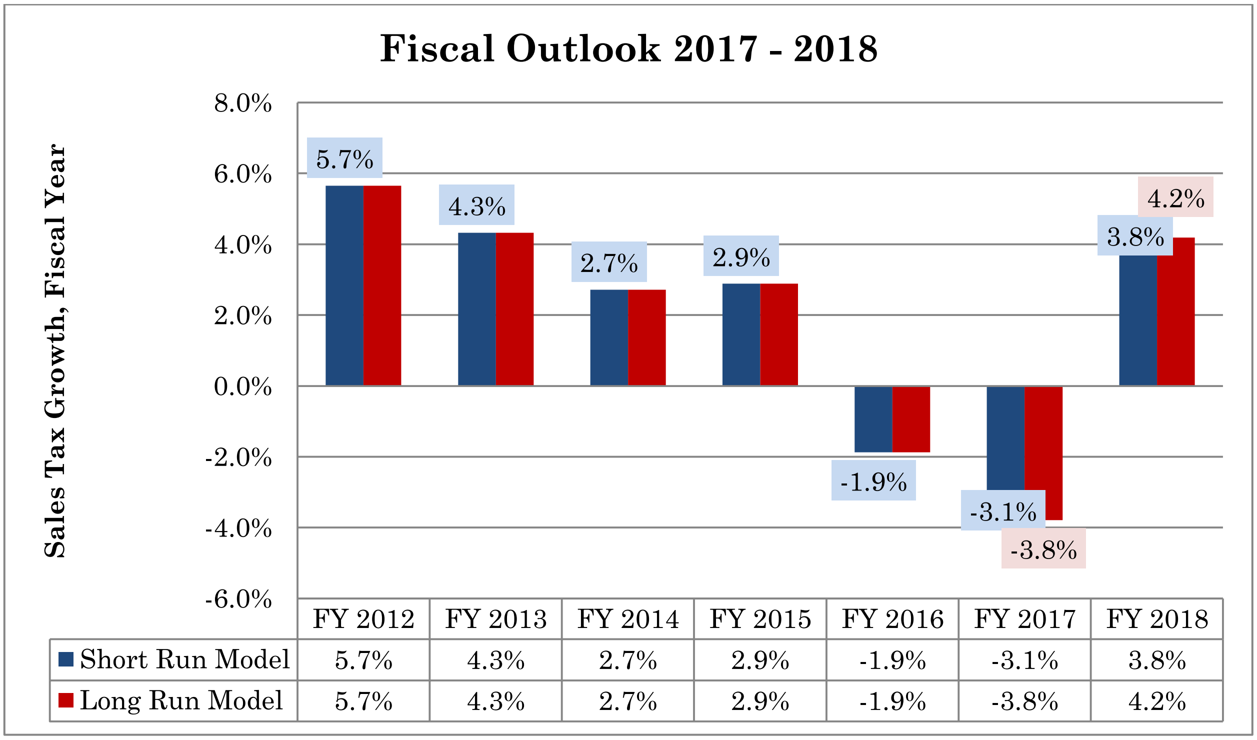


Figure 35: *Fiscal Outlook 2018*

Appendix: Detailed Forecast Tables

U.S. Economic Outlook Summary

Key U.S. Economic Variables / Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Domestic Product: Annual Growth by Major Component											
Real GDP	-2.8	-0.2	2.7	1.7	1.3	2.7	2.5	1.9	1.7	2.1	2.0
Personal consumption expenditures	-2.0	-0.2	3.1	1.5	1.3	2.0	3.5	2.6	2.5	2.4	2.6
Fixed investment	-12.5	-11.9	5.5	8.4	7.0	5.2	5.3	3.4	0.2	4.3	4.6
Inventory investment ($ Billions, 2005)	-33.7	-147.6	58.2	37.6	54.7	78.7	57.7	84.0	19.9	40.9	47.6
Gov't consumption & gross invest.	3.3	2.3	-1.1	-3.0	-2.2	-2.8	0.3	2.2	0.1	0.4	0.3
Employment and Industrial Activity											
Private Housing Starts (SA, Thousands of Units)	900	554	586	612	784	928	1001	1108	1165	1297	1477
Light Vehicle Sales (Millions of Units)	13.2	10.4	11.6	12.7	14.4	15.5	16.5	17.4	17.3	17.1	16.9
Industrial Production (SA Percent Change)	-9.0	-5.6	5.9	2.6	2.3	2.0	3.5	-1.6	-0.3	1.8	2.1
Manufacturing Capacity Utilization Rates	74.7	65.6	70.8	73.7	74.6	74.5	75.4	75.5	75.0	74.7	74.9
NF Payroll Employment (Monthly Avg., Millions)	137.2	131.3	130.4	131.9	134.2	136.4	138.9	141.8	144.3	146.5	148.3
Unemployment Rate (Monthly Average)	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.6	4.3
Prices, Productivity, & Costs											
Consumer Price Index (All Items)	1.6	1.5	1.2	3.3	1.9	1.2	1.2	0.4	1.9	2.1	2.2
Core Consumer Price Index (Ex. Food & Energy)	2.0	1.8	0.6	2.2	1.9	1.7	1.7	2.0	2.2	2.2	2.2
Personal Consumption Expenditures Price Index (Ex. Food & Energy)	1.6	1.4	1.0	1.9	1.8	1.5	1.6	1.4	1.8	1.9	2.0
Compensation Per Hour (Annual Growth)	3.0	1.2	1.4	0.5	5.6	0.0	2.9	3.1	1.9	2.9	3.4
Price of WTI Crude (Monthly Average $/barrel)	99.57	61.69	79.43	95.08	94.20	97.94	93.26	48.74	42.93	49.60	52.94
Price of Brent Crude (Monthly Average $/barrel)	96.85	61.49	79.51	111.26	111.65	108.64	99.02	52.35	43.44	52.12	55.61
Income, Interest Rates, and the Deficit											
Federal funds rate	1.93	0.16	0.17	0.10	0.14	0.11	0.09	0.13	0.39	0.86	1.64
10-year Treasury note yield	3.67	3.26	3.21	2.79	1.80	2.35	2.54	2.14	1.77	2.13	2.68
Disposable Personal Income ($ Billions, 2009)	1.1	-0.7	2.6	1.7	5.1	-2.8	4.5	3.0	1.8	2.4	2.6
U.S. Personal Savings Rate	4.9	6.1	5.6	6.1	7.6	5.0	5.6	5.8	5.7	5.5	5.4
Unified Federal Surplus, Fiscal Year	-454.8	-1415.7	-1294.2	-1296.8	-1089.2	-680.2	-483.6	-439.1	-587.4	-524.5	-459.7

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

Oklahoma Employment Outlook

Variable / Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nonfarm	1,567.6	1,556.0	1,577.7	1,614.1	1,635.3	1,656.6	1,668.7	1,661.3	1,662.1	1,680.0
Annual Growth	-3.1%	-0.7%	1.4%	2.3%	1.3%	1.3%	0.7%	-0.4%	0.0%	1.1%
Private	1,219.3	1,207.5	1,233.8	1,266.9	1,286.7	1,308.2	1,316.8	1,308.6	1,309.5	1,328.4
Annual Growth	-4.8%	-1.0%	2.2%	2.7%	1.6%	1.7%	0.7%	-0.6%	0.1%	1.4%
Mining	43.4	43.8	51.5	58.1	59.7	61.7	54.3	45.0	44.8	46.5
Annual Growth	-16.4%	0.7%	17.8%	12.8%	2.7%	3.4%	-12.0%	-17.2%	-0.3%	3.7%
Construction	68.9	67.0	68.3	70.4	74.7	75.4	77.8	82.0	81.4	82.7
Annual Growth	-8.8%	-2.7%	1.9%	3.1%	6.1%	0.9%	3.2%	5.4%	-0.7%	1.6%
Manufacturing	129.4	123.4	129.9	135.7	136.8	139.5	136.8	126.9	123.9	125.8
Annual Growth	-13.7%	-4.6%	5.3%	4.5%	0.8%	2.0%	-2.0%	-7.2%	-2.4%	1.6%
TTU	281.3	277.2	282.6	290.4	295.0	301.8	306.9	306.2	306.2	307.9
Annual Growth	-2.8%	-1.5%	2.0%	2.8%	1.6%	2.3%	1.7%	-0.2%	0.0%	0.5%
Wholesale	54.8	54.0	55.9	58.1	59.2	60.8	60.2	58.1	57.5	56.9
Annual Growth	-5.5%	-1.4%	3.4%	3.9%	1.9%	2.8%	-0.9%	-3.5%	-1.1%	-1.0%
Retail	169.9	168.6	170.5	173.2	175.0	178.8	183.4	185.2	185.9	187.7
Annual Growth	-1.8%	-0.7%	1.1%	1.5%	1.1%	2.2%	2.6%	1.0%	0.4%	1.0%
Transport	56.7	54.6	56.2	59.2	60.8	62.2	63.3	62.9	62.9	63.3
Annual Growth	-3.0%	-3.7%	3.0%	5.2%	2.8%	2.3%	1.9%	-0.7%	0.0%	0.7%
Information	26.8	24.3	23.0	22.5	21.8	21.2	20.9	21.5	21.8	22.1
Annual Growth	-6.6%	-9.5%	-5.0%	-2.5%	-3.0%	-2.7%	-1.5%	2.6%	1.5%	1.5%
Finance	79.5	78.1	77.6	78.1	78.9	79.5	80.0	80.7	81.1	81.5
Annual Growth	-1.6%	-1.8%	-0.7%	0.7%	1.0%	0.8%	0.6%	0.9%	0.5%	0.5%
Prof Bus	169.8	172.4	176.1	179.8	181.5	184.9	185.3	180.4	179.2	183.0
Annual Growth	-8.6%	1.5%	2.1%	2.1%	1.0%	1.9%	0.2%	-2.6%	-0.7%	2.1%
Scientific and Technical	62.9	63.5	64.3	65.9	67.0	67.8	69.0	68.7	69.5	70.5
Annual Growth	-3.0%	0.9%	1.3%	2.4%	1.6%	1.2%	1.8%	-0.5%	1.1%	1.5%
Management	16.4	16.3	17.0	18.0	18.4	18.6	18.8	17.4	17.0	17.2
Annual Growth	-1.9%	-0.5%	4.3%	5.8%	2.0%	1.2%	1.0%	-7.3%	-2.6%	1.1%

Variable / Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Admin	90.5	92.6	94.7	95.9	96.2	98.6	97.5	94.3	92.8	95.3
Annual Growth	-13.1%	2.3%	2.3%	1.2%	0.3%	2.5%	-1.1%	-3.2%	-1.6%	2.7%
Education Health	218.6	221.7	223.1	226.2	227.7	228.1	231.2	235.6	239.1	241.7
Annual Growth	1.8%	1.4%	0.6%	1.4%	0.6%	0.2%	1.4%	1.9%	1.5%	1.1%
Education	18.1	18.4	19.0	19.2	19.4	19.7	19.9	20.9	21.7	22.0
Annual Growth	4.1%	1.5%	3.3%	1.0%	1.2%	1.5%	0.7%	5.2%	3.8%	1.3%
Health	200.4	203.3	204.1	207.0	208.3	208.4	211.4	214.7	217.4	219.7
Annual Growth	1.6%	1.4%	0.4%	1.4%	0.6%	0.0%	1.4%	1.6%	1.2%	1.1%
Leisure	140.0	139.0	142.9	147.2	151.6	155.9	161.5	168.3	169.6	174.4
Annual Growth	-0.7%	-0.7%	2.8%	3.0%	3.0%	2.9%	3.5%	4.3%	0.7%	2.8%
Arts	14.4	14.3	14.1	14.3	14.6	14.8	15.9	16.6	16.3	16.7
Annual Growth	-8.0%	-0.7%	-1.3%	1.2%	2.3%	1.4%	7.1%	4.5%	-1.8%	2.5%
Food and Accom.	125.6	124.7	128.8	132.9	137.0	141.1	145.6	151.7	153.3	157.7
Annual Growth	0.2%	-0.7%	3.3%	3.2%	3.1%	3.0%	3.2%	4.2%	1.0%	2.8%
Other	61.6	60.6	58.8	58.6	59.1	60.1	62.0	62.1	62.5	63.0
Annual Growth	-3.0%	-1.7%	-2.9%	-0.4%	0.9%	1.7%	3.2%	0.1%	0.6%	0.9%
Government	348.3	348.5	343.9	347.1	348.6	348.4	351.9	352.7	352.6	351.6
Annual Growth	3.3%	0.1%	-1.3%	0.9%	0.4%	-0.1%	1.0%	0.2%	0.0%	-0.3%
Federal	46.6	50.4	49.1	48.4	47.1	46.3	46.9	47.6	48.0	47.8
Annual Growth	3.0%	8.3%	-2.6%	-1.6%	-2.5%	-1.8%	1.4%	1.5%	0.8%	-0.3%
State	85.1	83.8	84.8	86.4	86.3	85.8	85.5	85.3	85.3	85.4
Annual Growth	1.2%	-1.5%	1.2%	1.9%	-0.1%	-0.6%	-0.3%	-0.3%	0.0%	0.1%
Local	216.7	214.3	209.9	212.4	215.1	216.3	219.5	219.8	219.3	218.4
Annual Growth	4.2%	-1.1%	-2.0%	1.2%	1.3%	0.5%	1.5%	0.2%	-0.2%	-0.4%
OK Household Empl.	1,652,023	1,648,138	1,668,417	1,709,351	1,710,780	1,717,136	1,763,844	1,752,865	1,748,953	1,755,680
Annual Growth	-1.7%	-0.2%	1.2%	2.5%	0.1%	0.4%	2.7%	-0.6%	-0.2%	0.4%
OK Labor Force	1,764,432	1,768,284	1,772,665	1,804,070	1,806,829	1,797,933	1,842,048	1,840,995	1,836,264	1,832,248
Annual Growth	1.0%	0.2%	0.2%	1.8%	0.2%	-0.5%	2.5%	-0.1%	-0.3%	-0.2%
OK UN RATE	6.4%	6.8%	5.9%	5.3%	5.3%	4.5%	4.2%	4.8%	4.8%	4.2%

Oklahoma Quarterly GDP, Income, and Population										
	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
OK RGDP (Mil)	$171,927.12	$172,515.16	$172,806.81	$173,451.14	$174,936.19	$176,484.02	$176,495.75	$176,617.72	$178,264.72	$180,407.04
Growth*	2.6%	1.4%	0.7%	1.5%	3.4%	3.5%	0.0%	0.3%	3.7%	4.8%
OK PI (Mil)	$178,899.69	$179,552.00	$180,837.00	$182,576.00	$183,640.00	$185,178.00	$187,099.00	$188,906.00	$189,773.00	$191,257.00
Growth	1.5%	1.5%	2.9%	3.8%	2.3%	3.4%	4.1%	3.9%	1.8%	3.1%
OK Pop	3,946,963	3,955,328	3,961,767	3,968,115	3,975,631	3,983,226	3,989,284	3,995,487	4,002,940	4,010,400
Growth	0.9%	0.8%	0.7%	0.6%	0.8%	0.8%	0.6%	0.6%	0.7%	0.7%
OK Per Cap	$45,326.00	$45,394.97	$45,645.54	$46,010.77	$46,191.41	$46,489.46	$46,900.39	$47,279.84	$47,408.40	$47,690.26
Growth	0.7%	0.6%	2.2%	3.2%	1.6%	2.6%	3.5%	3.2%	1.1%	2.4%

*Annualized rate of growth

Oklahoma and Oklahoma City Population, Income, and Gross Product									
Oklahoma	2010	2011	2012	2013	2014	2015	2016	2017	2018
Pers. Income*	$135,011	$145,616	$156,874	$164,437	$175,037	$178,250	$178,592	$183,058	$189,259
Population	3,759,596	3,786,626	3,817,679	3,853,405	3,879,610	3,911,338	3,943,000	3,972,185	3,999,528
Per Cap Income	$35,911	$38,455	$41,092	$42,673	$45,117	$45,573	$45,294	$46,085	$47,320
FT and PT Empl.	2,131,426	2,160,846	2,212,883	2,248,933	2,271,239	2,287,902	2,299,087	2,303,589	2,323,125
W & S Empl.	1,607,228	1,626,838	1,658,230	1,680,348	1,700,578	1,706,632	1,717,995	1,723,945	1,738,898
Proprietor Empl.	524,198	534,008	554,653	568,585	570,661	581,270	581,092	579,644	584,227
Oklahoma City	2010	2011	2012	2013	2014	2015	2016	2017	2018
Pers. Income*	$48,744	$51,941	$54,502	$56,176	$59,465	$62,592	$63,578	$66,046	$68,189
Population	1,257,950	1,276,810	1,298,118	1,321,040	1,337,619	1,358,452	1,380,219	1,402,742	1,426,011
Per Cap Income	$38,749	$40,680	$41,986	$42,524	$44,456	$46,076	$46,064	$47,083	$47,818
Gross Metro Product*	$56,591	$59,956	$62,908	$65,499	$67,844	$69,749	$71,341	$73,495	$76,072

* Measured in Millions of Dollars

Oklahoma City Employment Outlook										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nonfarm	568.1	566.8	580.1	594.2	608.0	619.6	629.9	633.0	637.2	649.1
Annual Growth	-2.8%	-0.2%	2.3%	2.4%	2.3%	1.9%	1.7%	0.5%	0.7%	1.9%
Private	447.4	444.8	458.4	471.7	483.3	494.9	503.0	504.3	507.7	520.1
Annual Growth	-4.0%	-0.6%	3.1%	2.9%	2.5%	2.4%	1.6%	0.3%	0.7%	2.4%
Mining	13.5	14.3	17.0	19.6	20.2	20.8	19.2	15.6	15.0	16.5
Annual Growth	-15.5%	5.4%	19.0%	15.3%	3.1%	2.9%	-7.6%	-18.8%	-3.8%	10.2%
Construction	25.8	25.2	25.9	26.5	27.1	28.3	29.4	31.5	31.6	32.7
Annual Growth	-6.8%	-2.3%	2.6%	2.4%	2.4%	4.6%	3.7%	7.3%	0.1%	3.6%
Manufacturing	32.5	31.0	32.9	35.1	36.5	37.5	37.6	35.9	35.9	36.2
Annual Growth	-12.1%	-4.6%	6.1%	6.6%	4.0%	2.9%	0.1%	-4.3%	-0.2%	1.0%
Trade, Transport, Utilities	97.5	97.2	100.0	102.9	107.0	109.5	111.5	111.1	111.9	114.9
Annual Growth	-3.2%	-0.3%	2.9%	2.9%	4.0%	2.4%	1.8%	-0.4%	0.7%	2.7%
Wholesale	20.5	20.6	21.6	22.7	23.9	24.5	24.4	23.1	22.4	23.1
Annual Growth	-5.1%	0.1%	4.8%	5.5%	5.1%	2.4%	-0.2%	-5.6%	-2.7%	2.8%
Retail	60.2	60.1	61.2	62.3	64.2	65.9	67.5	68.3	69.4	71.2
Annual Growth	-3.4%	-0.2%	1.9%	1.9%	3.0%	2.7%	2.4%	1.2%	1.6%	2.6%
Transport	16.8	16.6	17.3	17.8	18.9	19.1	19.6	19.7	20.1	20.6
Annual Growth	0.3%	-1.5%	4.1%	3.3%	5.9%	1.2%	2.5%	0.6%	1.9%	2.7%
Information	11.1	9.6	9.0	8.6	8.2	8.1	8.1	8.2	8.0	7.8
Annual Growth	-9.0%	-13.6%	-5.8%	-4.4%	-4.7%	-0.7%	-0.2%	0.4%	-2.5%	-2.1%
Financial	31.3	31.0	30.8	31.8	32.4	33.1	33.5	34.0	35.1	36.0
Annual Growth	-1.7%	-1.0%	-0.6%	3.1%	1.9%	2.4%	1.1%	1.6%	3.0%	2.7%
Professional Svcs.	71.9	73.1	75.8	76.8	77.6	78.9	80.6	79.4	78.6	80.1
Annual Growth	-7.1%	1.7%	3.7%	1.3%	1.1%	1.7%	2.3%	-1.5%	-1.1%	1.9%
Scientific	27.6	28.3	29.1	29.9	29.9	30.1	31.0	31.2	31.5	32.3
Annual Growth	-2.1%	2.6%	3.1%	2.8%	-0.3%	0.9%	2.7%	0.8%	0.9%	2.5%
Mgmt. of Companies	7.5	7.2	7.8	8.8	9.0	9.4	9.5	9.2	8.9	9.1
Annual Growth	-11.2%	-3.1%	7.4%	12.9%	2.5%	4.5%	1.5%	-3.8%	-3.4%	2.7%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Admin & Waste Support	36.8	37.6	38.9	38.0	38.7	39.3	40.1	39.1	38.2	38.7
Annual Growth	-9.7%	2.1%	3.4%	-2.1%	1.8%	1.5%	2.1%	-2.7%	-2.1%	1.2%
Ed & Health	82.9	83.2	84.4	86.4	88.0	88.9	90.4	93.9	95.8	97.1
Annual Growth	0.9%	0.4%	1.4%	2.4%	1.7%	1.1%	1.6%	3.9%	2.1%	1.4%
Health	74.8	74.8	75.5	77.4	78.7	79.5	81.1	83.9	85.4	86.5
Annual Growth	0.3%	0.0%	0.9%	2.5%	1.7%	1.0%	2.0%	3.5%	1.8%	1.3%
Leisure	57.6	57.6	60.0	61.7	64.2	65.9	68.0	69.8	70.9	73.6
Annual Growth	0.9%	0.1%	4.2%	2.9%	4.0%	2.7%	3.1%	2.6%	1.6%	3.8%
Other	23.3	22.7	22.7	22.4	22.3	23.7	24.8	25.0	25.2	25.2
Annual Growth	-2.2%	-2.7%	0.0%	-1.4%	-0.4%	6.5%	4.3%	0.8%	0.9%	0.0%
Gov	120.8	122.0	121.7	122.5	124.6	124.7	126.9	128.7	129.5	129.0
Annual Growth	1.9%	1.0%	-0.2%	0.6%	1.7%	0.1%	1.8%	1.4%	0.6%	-0.4%
Federal	26.2	28.1	28.4	28.2	27.6	26.9	27.4	27.9	28.8	28.6
Annual Growth	1.8%	7.4%	0.9%	-0.6%	-2.2%	-2.4%	1.9%	1.6%	3.1%	-0.6%
State	42.0	41.7	42.1	42.4	43.5	44.4	45.3	46.1	46.1	46.0
Annual Growth	1.0%	-0.8%	0.8%	0.8%	2.6%	2.0%	2.0%	2.0%	-0.1%	-0.2%
Local	52.6	52.2	51.3	51.9	53.6	53.5	54.2	54.7	54.7	54.4
Annual Growth	2.7%	-0.7%	-1.7%	1.2%	3.2%	-0.2%	1.4%	0.8%	0.0%	-0.4%
OK County Unempl.	19,909	21,768	18,886	17,512	17,978	15,488	14,316	16,124	16,646	16,124
Annual Growth	56.5%	9.3%	-13.2%	-7.3%	2.7%	-13.9%	-7.6%	12.6%	3.2%	-3.1%
OK County Empl.	305,990	332,486	338,450	348,420	351,530	353,937	364,026	363,294	367,863	375,994
Annual Growth	-1.7%	8.7%	1.8%	2.9%	0.9%	0.7%	2.9%	-0.2%	1.3%	2.2%
OK County Labor Force	325,899	354,254	357,336	365,932	369,508	369,425	378,341	379,419	384,509	392,119
Annual Growth	0.5%	8.7%	0.9%	2.4%	1.0%	0.0%	2.4%	0.3%	1.3%	2.0%
OK County Un. Rate	6.1%	6.1%	5.3%	4.8%	4.9%	4.2%	3.8%	4.3%	4.3%	4.1%
Okla. City Unempl.	33,791	36,554	31,613	29,272	30,338	26,054	24,706	27,919	28,595	27,713
Annual Growth	59.3%	8.2%	-13.5%	-7.4%	3.6%	-14.1%	-5.2%	13.0%	2.4%	-3.1%
Okla. City Empl.	535,992	586,949	598,676	615,942	621,278	624,889	643,491	642,460	654,386	669,657
Annual Growth	-1.4%	9.5%	2.0%	2.9%	0.9%	0.6%	3.0%	-0.2%	1.9%	2.3%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Okla. City Labor Force	569,783	623,502	630,289	645,214	651,616	650,943	668,196	670,379	682,980	697,370
Annual Growth	0.9%	9.4%	1.1%	2.4%	1.0%	-0.1%	2.7%	0.3%	1.9%	2.1%
Okla. City Un. Rate	5.9%	5.9%	5.0%	4.5%	4.7%	4.0%	3.7%	4.2%	4.2%	4.0%
Annual Growth	58.0%	-1.1%	-14.5%	-9.6%	2.6%	-14.0%	-7.7%	12.7%	0.5%	-5.1%

FIVE-YEAR FORECAST

FY 2018-2022

SECTION 4

FINANCIAL TREND MONITORING

The Financial Trend Monitoring System is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.

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 tenth year using the FTMS.

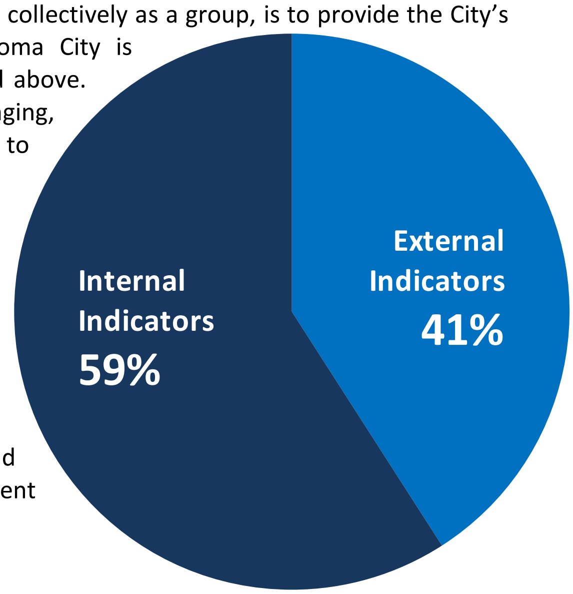
The goal of the process is to recognize multiple key quantifiable indicators and consider the trend of these indicators within the context of Oklahoma City's current environment, organizational structure and strategy. This way, City decision makers are provided with a more comprehensive evaluation of 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.[1]

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



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

FTMS is a management tool that combines government's budgetary and financial reports with economic and demographic data to create a series of financial indicators.[1] Indicators are then arranged in a rational order and plotted over time for use in monitoring changes in financial condition, alerting the government early on to potential problems and highlighting recent successes. The ICMA publication contains 42 different measures that may be used; for this presentation we used 22 measures.

The measures omitted were either not applicable to Oklahoma City or the data is not currently available for the indicator. The group of indicators that were chosen should help Oklahoma City:

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

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

TREND PERIOD

A time period of five years was analyzed for the trend analysis. In most instances, the most recent five years (2012-2016) were examined. There were some instances when 2016 data was not available and therefore earlier time periods were used. The years used for each indicator are easily identifiable on the accompanying charts. Although trend analysis is based on the last five years of data, most indicator charts reflect ten years of data to provide context to the data and how the last national recession, which was from December 2007 through June 2009, may have impacted the indicator. The recession period is indicated on the charts by gray shading for the applicable time period.

OVERALL RESULTS

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

A **positive** trend is favorable towards the City's financial condition and/or the indicator is meeting City policy or performance measures set by management.

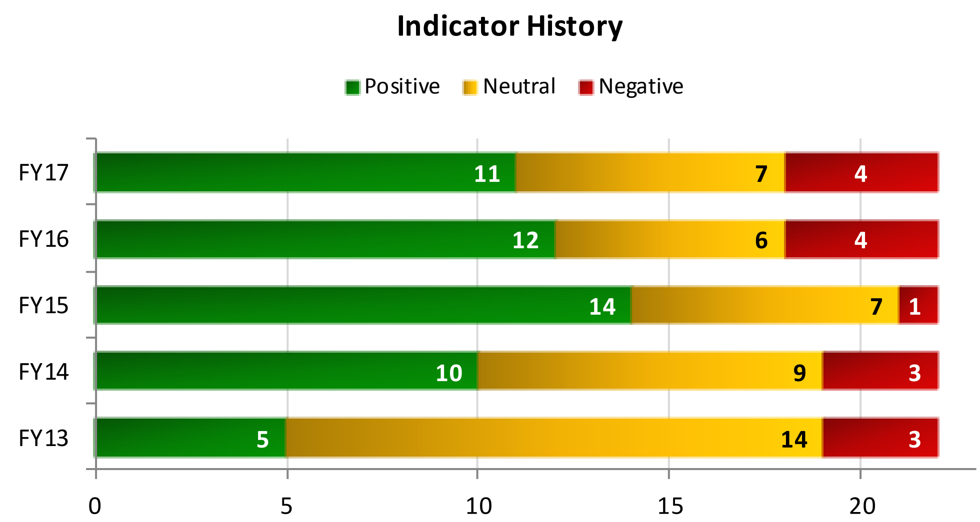
A **neutral** trend implies there is no immediate concern. These indicators are watched carefully for change to indicate early signs of improvement or worsening conditions.

A **negative** trend is unfavorable for the City's financial condition and/or the indicator may not be meeting City policy or performance measures. These trends are analyzed further to determine if it is likely the trend will reverse or if corrective action is needed.

As the chart on the following page shows this year's FTMS has **11 positive** indicators, **7 neutral** indicators, and **4 negative** indicators; overall, similar to last year's 12 positive, 6 neutral, and 4 negative. Two measures worsened from last year: Revenue Accuracy went from positive to neutral due to projections being off by more than 2% and Sales Tax went from positive to neutral due to declining collections. Intergovernmental Revenues improved from negative to neutral due to larger grant receipts for specific projects. The City remains in a favorable financial position. A description of each measure, the sources of data used, and a discussion of the measure rating are included in this section beginning with page 59.

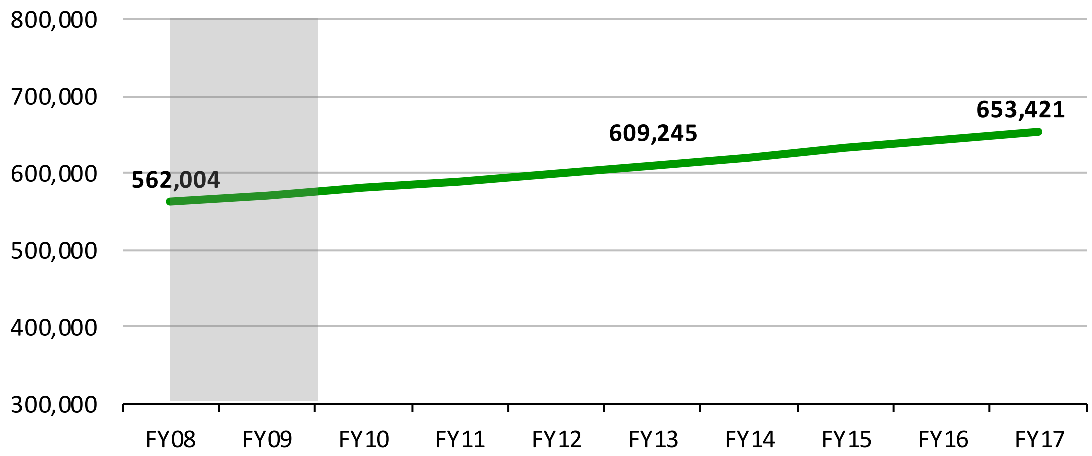
THE NEXT STEP

The FTMS system is not designed to project the future financial situation of the City; however, the system will provide a benchmark to track our recovery from the national recession (2007-2009), the impact the energy sector is having on our local economy and the impact online retail sales are having on sales tax collections. Management will monitor these areas and develop strategies to keep us moving in a positive direction financially.



FY13	FY14	FY15	F16	FY17	EXTERNAL INDICATORS
Green	Green	Green	Green	Green	Population
Green	Green	Green	Green	Green	Labor Force
N/A	Green	Green	Red	Red	Average Weekly Earnings
Red	Yellow	Green	Green	Green	Crime Rate
Yellow	Yellow	Yellow	Green	Green	Property Value
Green	Yellow	Yellow	Yellow	Yellow	Office Vacancy Rate
Yellow	Green	Green	Green	Green	Airport Activity
Green	Green	Green	Red	Red	Private Development Plans Submitted for Approval
Green	Yellow	Green	Red	Red	Active Drilling Rigs
					INTERNAL INDICATORS
Yellow	Green	Green	Green	Green	Revenue Per Capita
Red	Yellow	Yellow	Yellow	Red	Revenue Accuracy ***Worsened***
Green	Green	Green	Green	Yellow	Sales Tax Revenues ***Worsened***
Yellow	Yellow	Yellow	Yellow	Yellow	Sales Tax as a % of General Fund
Green	Green	Green	Green	Green	Hotel Tax Revenue
Yellow	Yellow	Red	Red	Yellow	Grant Revenues ***Improved***
Yellow	Yellow	Yellow	Yellow	Yellow	Employees per 1,000 Citizens
Yellow	Yellow	Yellow	Yellow	Yellow	Fringe Benefits
Red	Green	Green	Green	Green	Pension Funding Ratio
Yellow	Yellow	Yellow	Yellow	Yellow	Long-Term Debt
Green	Green	Green	Green	Green	Fund Balance
Green	Green	Green	Green	Green	Liquidity
Yellow	Yellow	Green	Green	Green	Enterprise Working Capital

POPULATION



What does Population Growth Indicate?

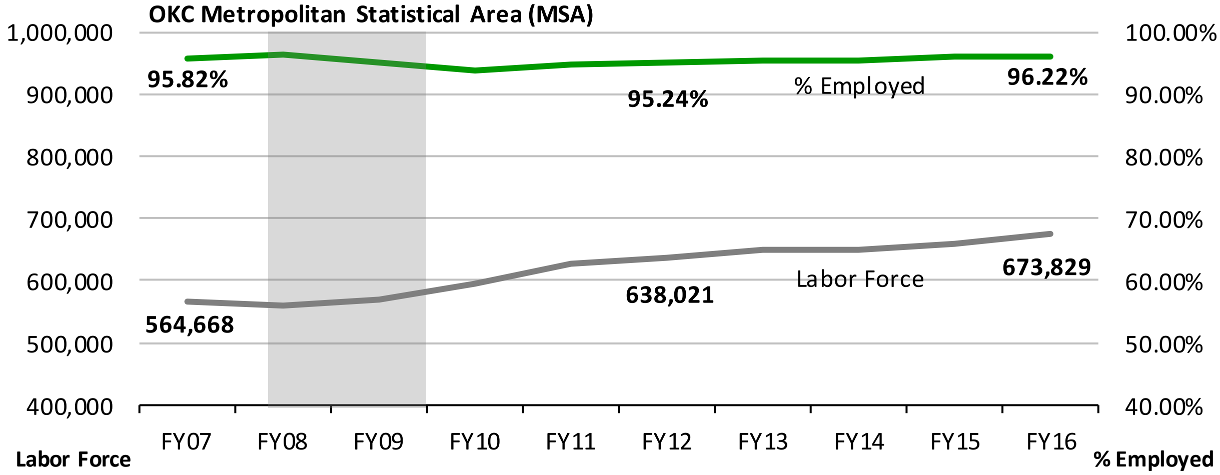
Population change directly affects governmental revenues. A sudden increase in population can create immediate pressures for new capital outlay and increased levels of service. At first glance, a decline in population might seem to relieve the pressure for expenditures but often quite the opposite is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

Why is This Important to Oklahoma City?

Oklahoma City has been able to increase its revenue base without having immediate, unplanned pressures for capital outlay and increases in service levels. Future monitoring of the population as compared to other financial indicators will help determine the cost of serving new residents in relation to the revenues they contribute through taxes. Oklahoma City has realized consistent growth in population since FY06 with an estimated 653,421 residents in FY17.[1] This is an average annual growth rate of 1.78% over the last five years and 1.65% over 10 years. Since the growth has been relatively steady, the trend was rated positive.

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

LABOR FORCE



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

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

Why is This Important to Oklahoma City?

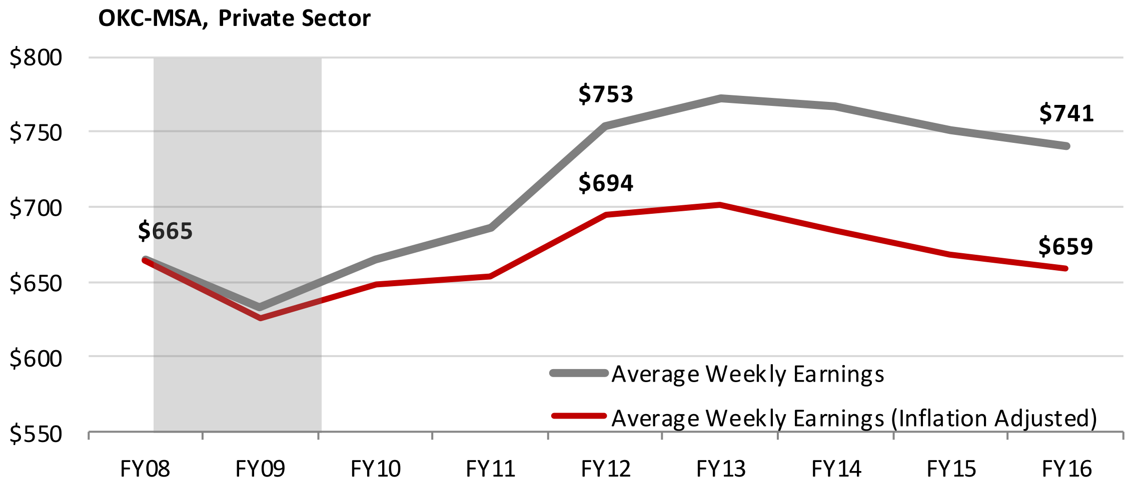
For many economists, an unemployment rate of 5% to 5.5% indicates that the unemployment rate is consistent with stable inflation. While the range for full employment may vary by expert, generally, when the unemployment rate is higher citizens are hurting because they want to work and are unable to find employment; when the unemployment rate is lower, the opposite occurs and employers may be hurting as they are unable to find citizens to employ in positions they have available. In FY16, the percentage of the labor force of the Oklahoma City Metropolitan Statistical Area (MSA) employed was 96%, meaning 4% were unemployed or that employment in the local area was full. Over the last five years and ten years, employment has remained steady and averaged 95% annually.

The percentage employed should be put into context with the size of the labor force. When the two data sets are used together it indicates the labor force is growing and those individuals are able to find employment. In the last five years, the labor force grew by 5.6% and it grew by 19% over the last ten years. Growth in FY10 and 11 was significant and has since slowed to an average of 1% growth annually. Annual growth in the labor force and consistent employment of 95% for the last five years resulted in a positive rating for this indicator.

Formula:

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

AVERAGE WEEKLY EARNINGS



What Does Average Weekly Earnings Indicate?

Average Weekly Earnings (AWE) is the amount of income a person earns each week and is a primary measure of a community's ability to generate sales tax. The more persons working each week and the more they earn the larger the impact on the amount of sales tax generated, the City's primary funding source for the General Fund. A decline in AWE leads to a reduction in purchasing power that, in turn, hurts retail business and can ripple through the rest of the local economy. Data is for the Oklahoma City Metropolitan Statistical Area (OKC-MSA)

Why is This Important to Oklahoma City?

Attracting and retaining employers with jobs with higher than average wages is one way the City is able to convey its commitment to economic development and its impact on citizen income levels and quality of life. Average Weekly Earnings (AWE) have been declining since FY13 in both current and inflation adjusted dollars resulting in a negative rating for this indicator. Lower weekly earnings mean residents in the OKC-MSA, on average, are unable to purchase as many goods and services as they once were.

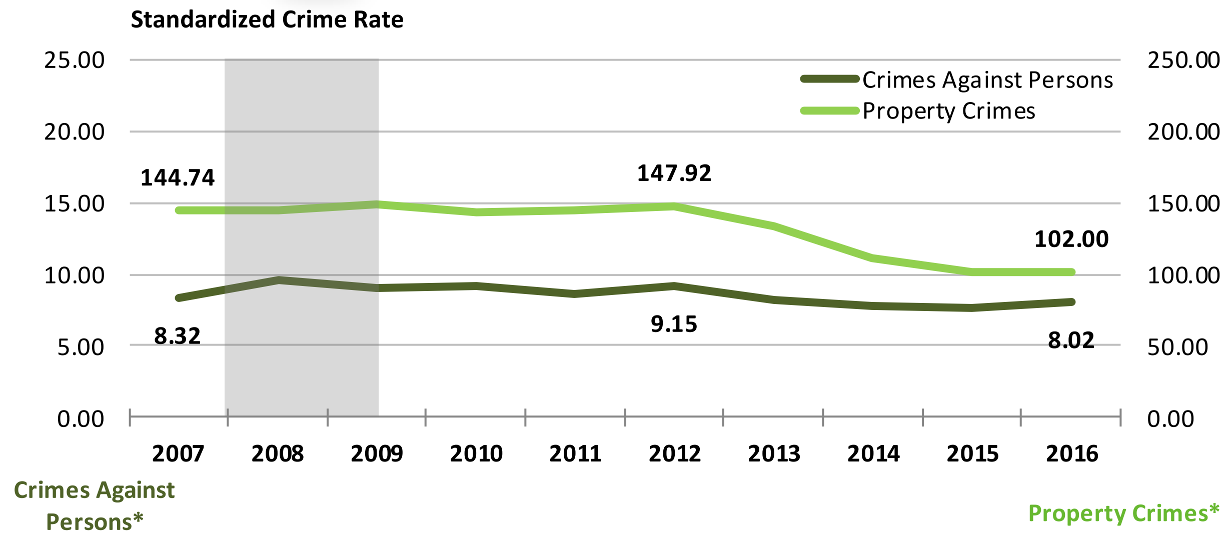
Current Year Activity

The Average Weekly Earnings for FY17 YTD is improving from the chart above. In current dollars, the AWE was $781 for July through November and the 8th consecutive month that Average Weekly Earnings grew over the same month in the prior year.

Formula:

<u>Average Weekly Wage, Private Sector, All Industries for Oklahoma County</u>
CPI

CRIME RATE



*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.

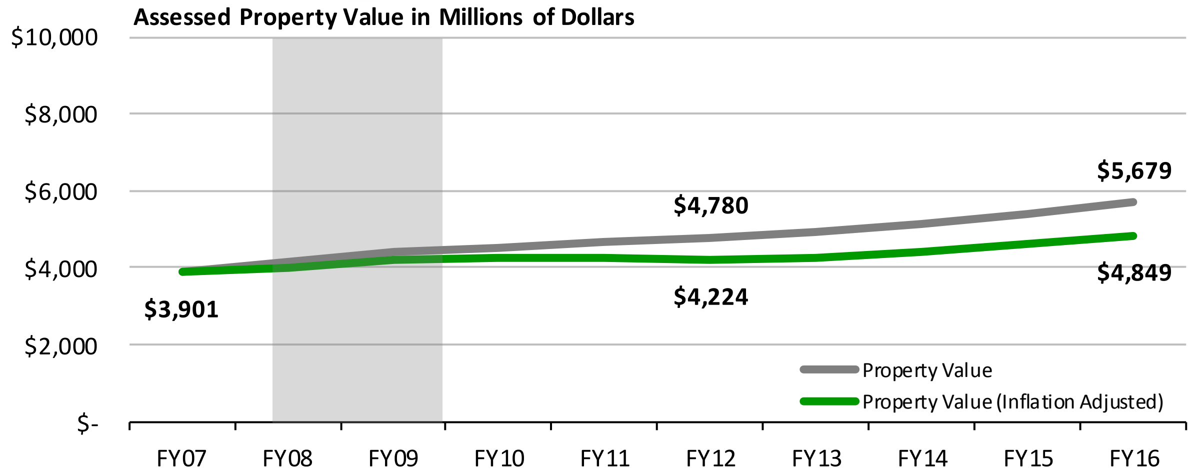
Why is This Important to Oklahoma City?

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 147.92 crimes per 1,000 households in calendar year 2012 to an estimated 102.00 in 2016. The number of crimes against persons has decreased from 9.15 per 1,000 in population in 2012 to an estimated 8.02 per 1,000 in population in 2016. The five-year trend of declining crime was the reason this indicator was rated positive. The Police Department attempts to identify crime trends in real time and continues to enhance its efforts with intelligence-based policing and targeted enforcement through analysis of local crime data. The Police Department also continues to embrace Community Based Policing and proactively addresses concerns expressed by Oklahoma City residents. Public Safety is a priority for City Council with 137 positions added to Police Department staffing since FY12.

*Data for 2016 is estimated using actual data from January – October. November and December were an average of first ten months of 2016.

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

PROPERTY VALUE



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

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

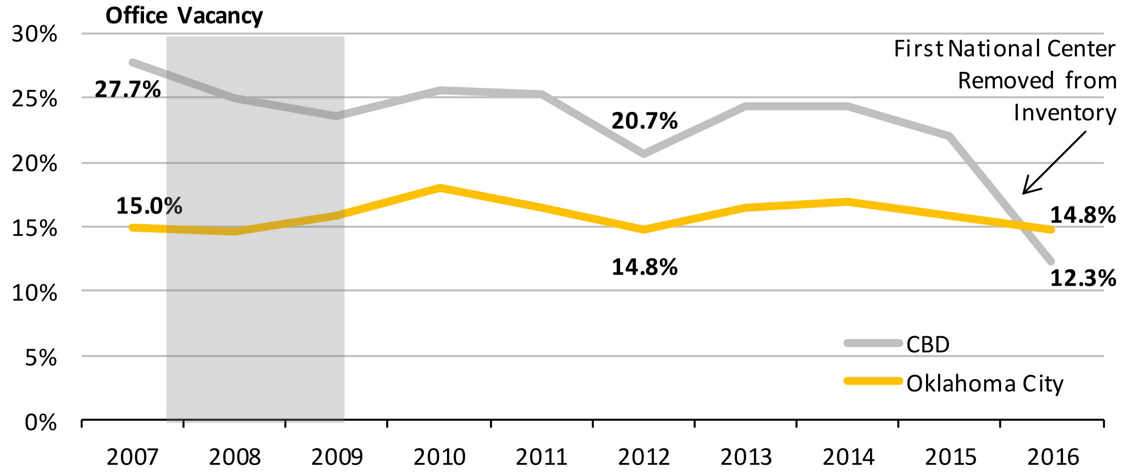
Why is This Important to Oklahoma City?

While Oklahoma City cannot use property tax to fund operations, property value is still an important component of the City's finances; namely, its ability to finance capital projects through General Obligation Bonds. The increases in property values in recent years have expanded Oklahoma City's debt capacity allowing more capital projects. Oklahoma City's inflation adjusted assessed property value remained flat from 2011 through 2013 and then increased 2.6% in FY14, 5.1% in FY15, and 5.05% in FY16, an indicator that recent growth may be attributed to increased economic activity and population growth.[3] The City will continue to monitor this trend for future effects of the law that reduced the cap on assessed valuation growth from 5% per year to 3% per year. Based on the upward trend of inflation adjusted property values, this has been rated as a positive indicator.

Formula:

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

OFFICE VACANCY RATE



Why is Vacancy Rate an Indicator for Financial Performance?

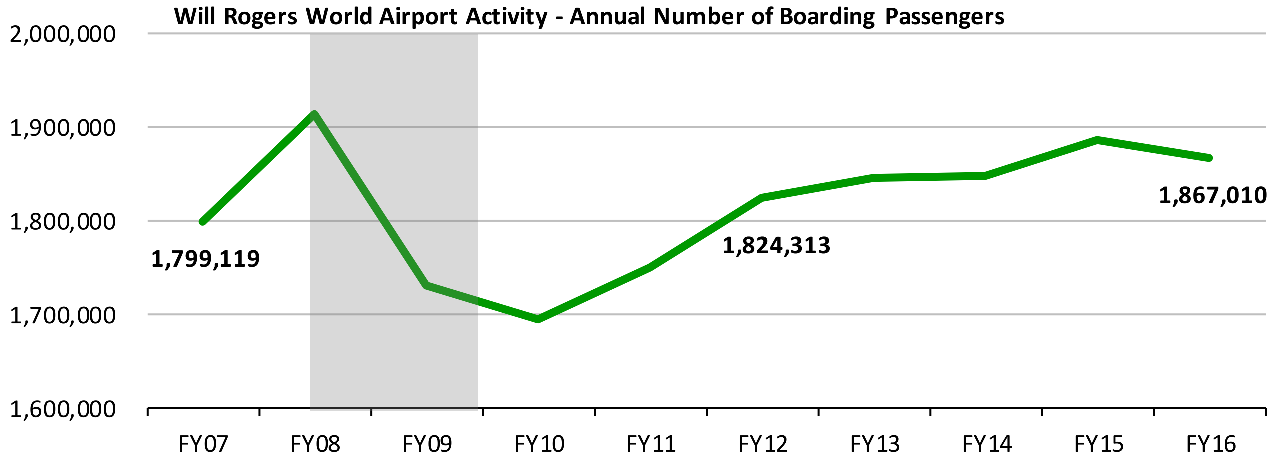
Tracking changes in vacancy rates for all types of rental property such as residential, commercial, and industrial can provide an early warning sign of potential economic or demographic problems. If a community is an attractive place to live and do business in, then it is reasonable to expect demands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

Why is This Important to Oklahoma City?

For the purposes of this trend analysis, the office vacancy rates for Oklahoma City's central business district (CBD) and the greater Oklahoma City area were examined. If vacancy rates increased to an unhealthy rate, it would have a negative impact on property values and incomes. In 2010, vacancy rates were driven up in response to the recession but improved in 2011 and 2012 as the energy sector absorbed more space while new office space was under construction. In 2015 construction of one new office tower was begun at Sheridan and Hudson but plans by OG&E for a new tower were put on hold due to insufficient demand for additional downtown office space. The Price Edwards and Company Oklahoma City 2016 Mid-Year Office Market Summary stated that in reference to the Central Business District *"Vacancy rates will remain near current levels until new buildings hit the market"* and in reference to the suburban submarket, *"Suburban rental rates should remain near current levels. Suburban vacancy rates should increase until oil prices stabilize and improve".* The market analysis and fairly stable vacancy rate for Oklahoma City as a whole resulted in a neutral rating for this indicator.

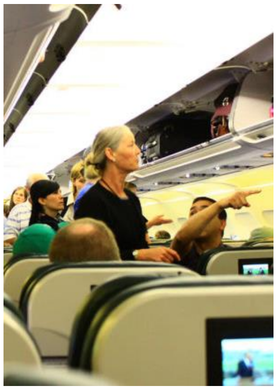
Formula: Vacancy Rates from Price Edwards Oklahoma City Office Market Summary[4]

AIRPORT ACTIVITY



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. Since FY12 Will Rogers World Airport has increased the number of destinations and airports served which has helped fuel an increase in passengers. Airport activity for Oklahoma City grew at an average rate of 2.3% over the last five years and averaged 1.85 million boarding passengers per year. Although the number of boarding passengers dipped in FY16, the rating for this indicator remained positive as the number of boarding passengers in FY16 was greater than the number of boarding passengers in FY12 and above the five year average.

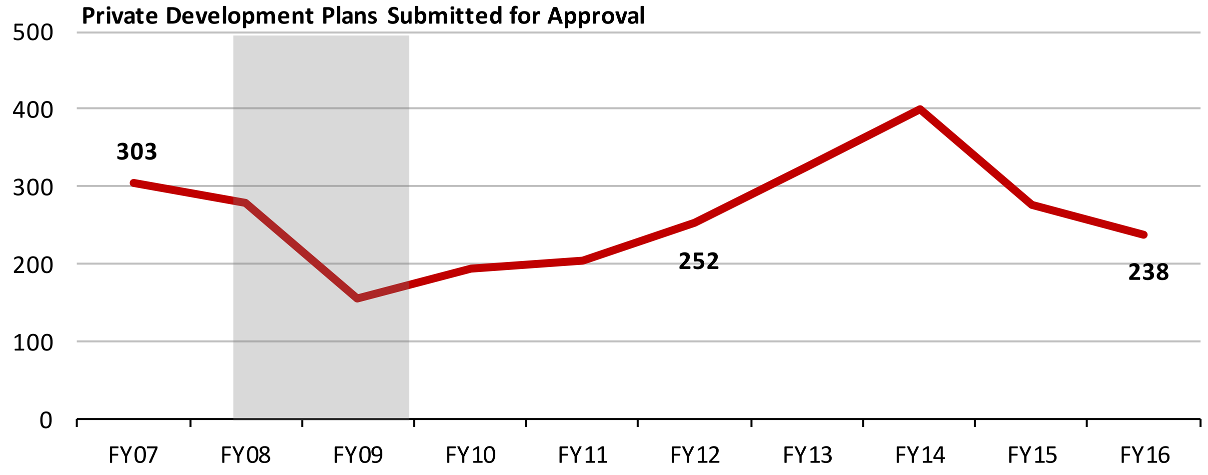
Current Year Activity

The number of boarding passengers declined 1.3% during the first six months of FY17.

Formula:

Annual Number of Passengers Boarding at Will Rogers World Airport

PRIVATE DEVELOPMENT PLANS



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

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

Why is This Important to Oklahoma City?

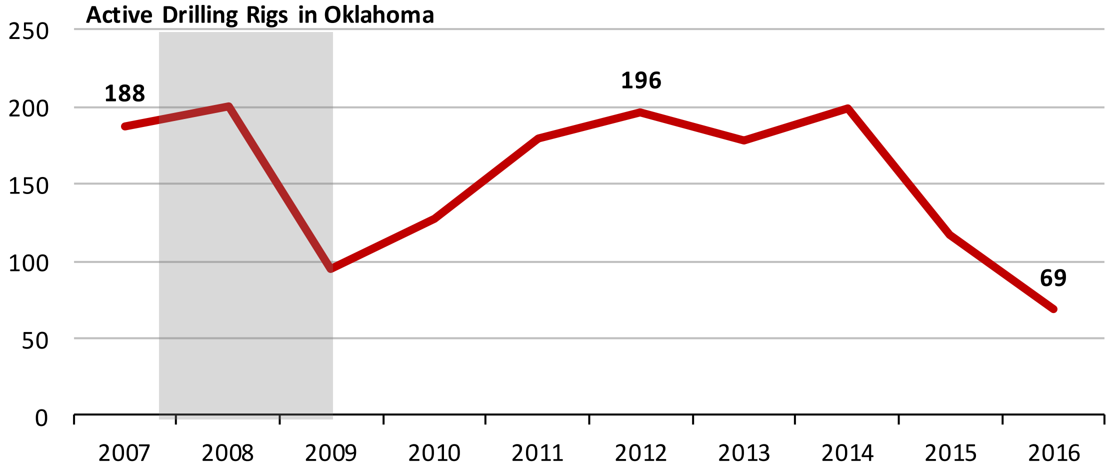
Private development plans submitted are a key indicator of the confidence local developers have in the economy. These permits set the stage for spending on infrastructure in both residential and commercial developments which precedes spending on construction. An increase in the number of plans submitted shows a level of confidence by developers in the future prospects in the local economy. Likewise, a decline indicates that developers do not anticipate as much economic growth in the near future. The actual count of private plans submitted to Public Works decreased 14% in FY16 from a FY15 decline. 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 FY16 generated $2.1 million.

Current Year Activity

Current revenue collections were down 6.77% through the first six months of FY17 and are projected to end FY17 down 6.41%.

Formula: Sum the number of plans submitted for sanitary sewer, paving, and drainage to the Public Works Engineering Line of Business[5]

ACTIVE DRILLING RIGS



Why are Active Drilling Wells an Indicator for Financial Performance?

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

Why is This Important to Oklahoma City?

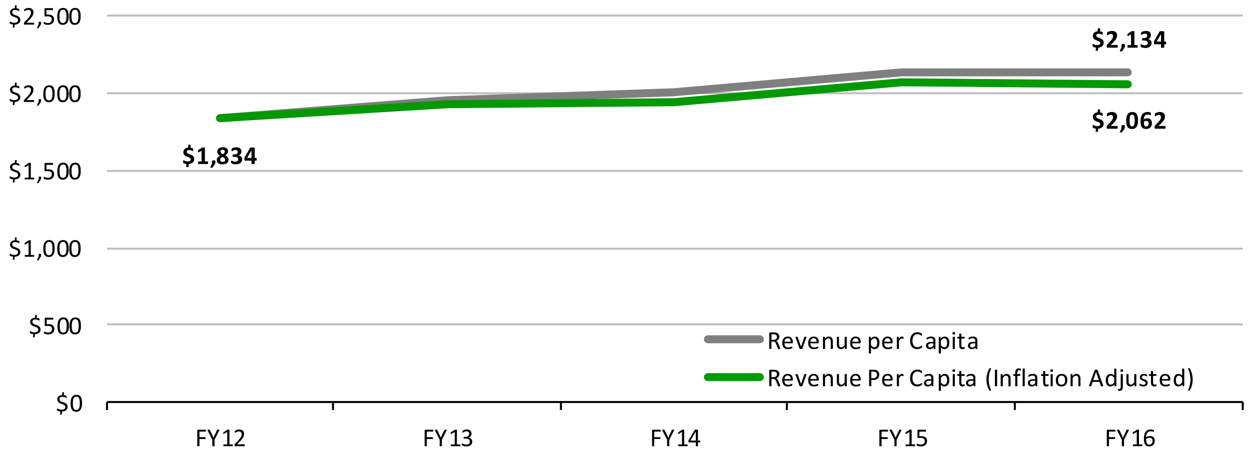
The number of active rigs is reported weekly and provides a current measure of activity in the energy sector. A study[6] conducted for the Oklahoma State Chamber of Commerce by Dr. Mark Snead, indicates that the oil and gas sector is as big a share of statewide earnings as it was at the height of the oil boom in 1982. The steep decline in energy prices that occurred from the last half of 2008 through late 2009 resulted in a dramatic decline in energy sector activity in Oklahoma in 2009. As oil prices recovered, so did Oklahoma's active rig count with drilling activity increasing from 2009 to 2014. As oil prices began to drop in mid-2014, a drop in rig count followed beginning in February 2015. The average active rig count in FY16 was 69; a 42% decline from the average FY15 rig count. Because the average rig count for FY16 was below FY15 the rating remained negative.

Current Year Activity

The January 2017 average rig count was 89 which was a 3.49% increase compared to one year ago and a 56% increase from May 2016 when the count appears to have bottomed out at 57. January 2017 also marked the end of 23 consecutive months of declining rig counts when compared to the same month in the prior year. The projections for the energy sector indicate that a slow recovery will continue into 2017 as energy companies return to profitability, rig counts climb, and prices continue to improve.

Formula: Count of Active Rotary Rigs from Baker Hughes Incorporated [7]

REVENUE PER CAPITA



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.[1]

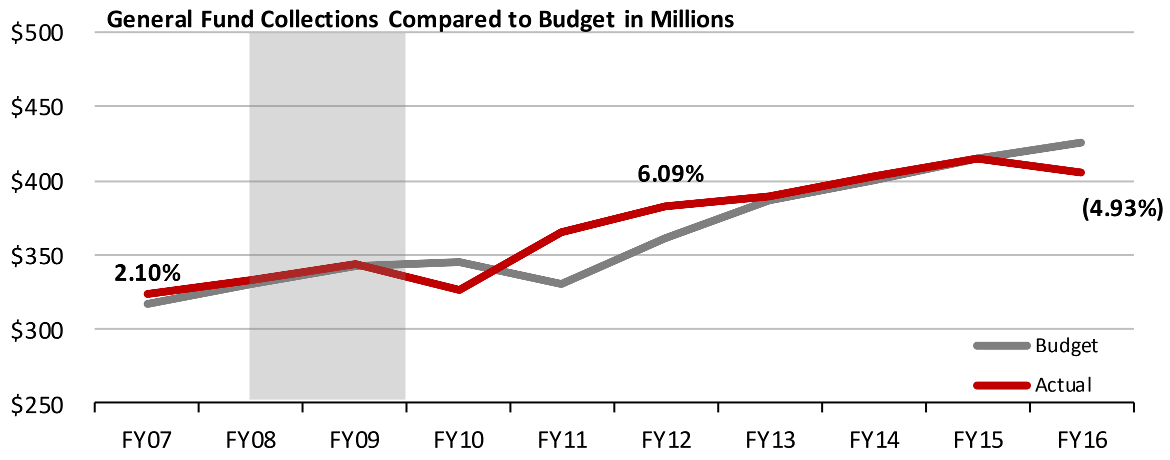
Why is This Important to Oklahoma City?

This issue is delicate since revenue per capita is a reflection of the financial impact of the City's taxes and fees on citizens, but is also necessary to provide the level and quality of services citizens desire.[5] Over the five-year period, revenue per capita increased 12.43% after adjusting for inflation. Since the revenue per capital steadily grew over the time period, the indicator was rated positive. The City will continue to monitor existing revenue sources and look for new revenue possibilities in order to ensure revenue keeps up with population and inflation growth in the coming years.

Formula:

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

REVENUE ACCURACY



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.[2] The worst-case scenario for this indicator would be increasing revenue shortfalls.

Why is This Important to Oklahoma City?

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

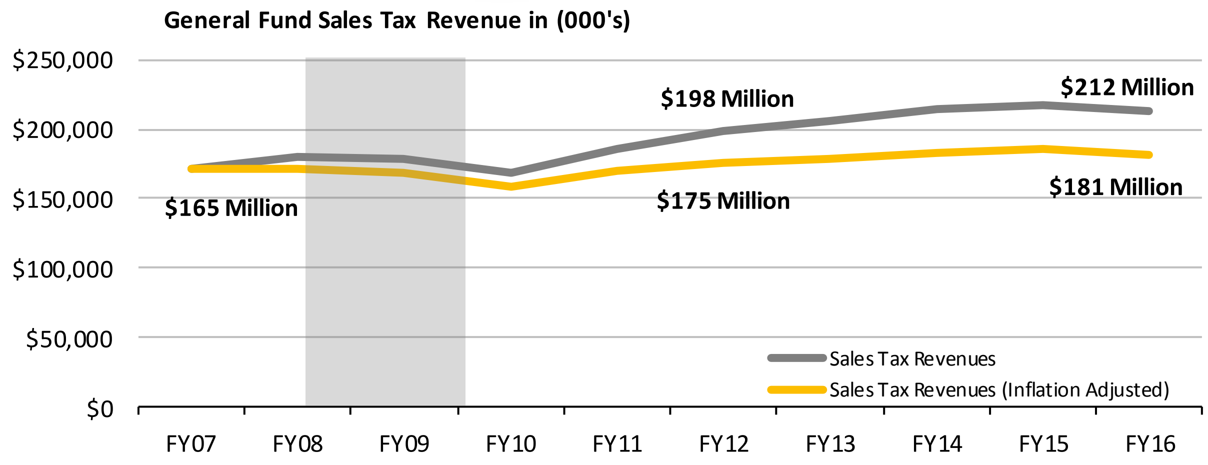
In FY08, FY09, FY13, FY14, and FY15 revenue collections were within 1% of projections. However, in FY10 Oklahoma was still feeling the impact of the recession and collections came in 5.68% below projections. Conservative projections in FY11 were exceeded by 10.44% as Oklahoma City rebounded strongly from the recession; FY12 was 6.09% above projections. However, In FY16 collections were 4.93% below projections as the local economy felt the impact of the energy sector contraction. The average absolute variance over the last five years was 2.48%, which is above the City's stated goal of having revenues within 2% of projections; therefore this indicator was rated negative.

Current Year Activity

In the current fiscal year, General Fund revenue was 2.0% below projections through December.

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

SALES TAX REVENUES



What Tax Revenues are Included in this Indicator?

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

Why is This Important to Oklahoma City?

Sales Tax accounts for 53% of all General Fund revenue on average, so a change in growth rate can impact the City's operations and services provided to citizens. Changes in Sales Tax can have a number of causes including state or local economic health, changes in population, the movement of retail operations to and from other communities, and/or Sales Tax payers moving their base of operations to other jurisdictions.[3] The chart above shows the rebound from the recession and then a slight decline in FY16 as the local economy was impacted by the energy sector contraction. After adjusting for inflation, sales tax revenue has grown 3.4% over the last five years and 6.0% over the last ten years. The five-year growth rate is lower than the long-standing trend of 4% growth which led to a neutral rating for this indicator.

Current Year Activity

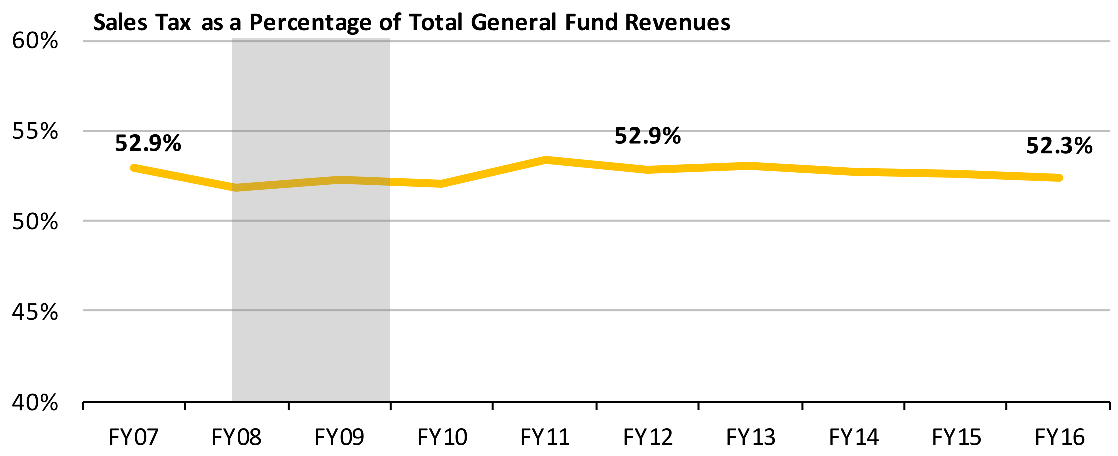
The Oklahoma City economy has continued to be depressed due to a slow rebound in the energy sector, inventory cycle adjustments, and an increase in online retail sales where sales tax is not remitted. In the current fiscal year sales tax had declined 3.98% through January and is projected to finish the year at about 2.7% below prior year. City staff will continue to provide monthly sales tax reports and refine the sales tax forecast as new data and analysis becomes available.

Formula:

$$\frac{\text{Sales Tax}}{\text{Consumer Price Index (2007used as base year)}}$$

 INTERNAL INDICATOR

SALES TAX AS PERCENTAGE OF GENERAL FUND



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.[3] When the economy is strong, Sales Tax revenues grow, whereas when the economy is slowing Sales Tax revenues decrease. In contrast, inelastic revenue types, such as property taxes, are less responsive to changes in the economy. For example, the revenue generated from property tax, being based on assessed valuation, generally remains stable regardless of the direction the economy is moving in the near-term because it takes longer for economic activity to impact assessed values.

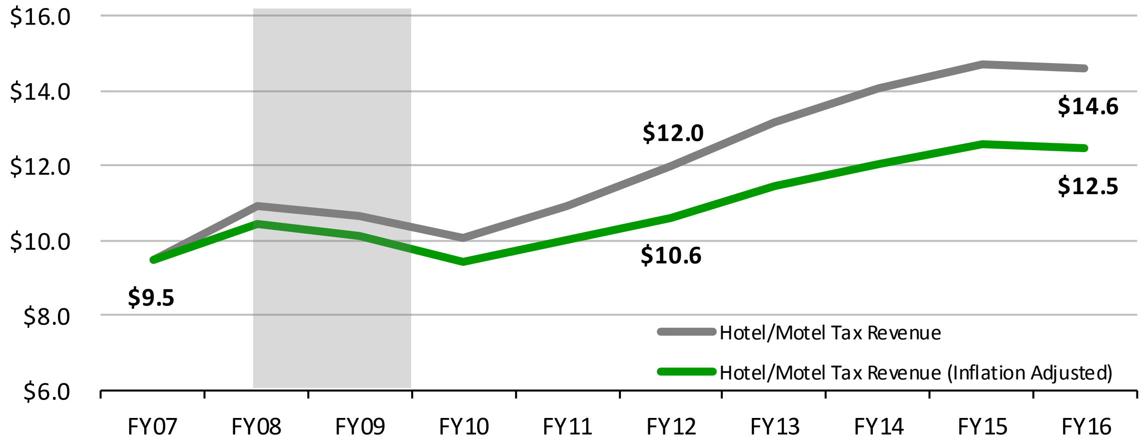
Why is This Important to Oklahoma City?

Ideally, Oklahoma City, or any municipality, needs diversity in its revenue sources. It is beneficial that Sales Tax contributes a significant part of Oklahoma City's revenue mix so that in times of economic growth and/or inflation the revenue yield can increase to keep pace with demand and higher prices. However, relying too much on Sales Tax leaves the City more vulnerable to economic downturns since other, more stable, revenue sources comprise a smaller portion of the City's total revenue. 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:

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

HOTEL MOTEL TAX



Why is Hotel Motel Tax an indicator for Financial Performance?

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

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

Why is This Important to Oklahoma City?

Hotel Motel Tax for Oklahoma City saw a slight decline of 1% in FY16 as the local economy was impacted by the energy sector contraction. In terms of inflation adjusted dollars, Hotel Motel Tax revenue grew 17% over the last 5-years and 31% over the last 10 years. The strong recovery from the recession and only a slight impact from the energy sector contraction in FY16 led us to assign a positive rating for this indicator.

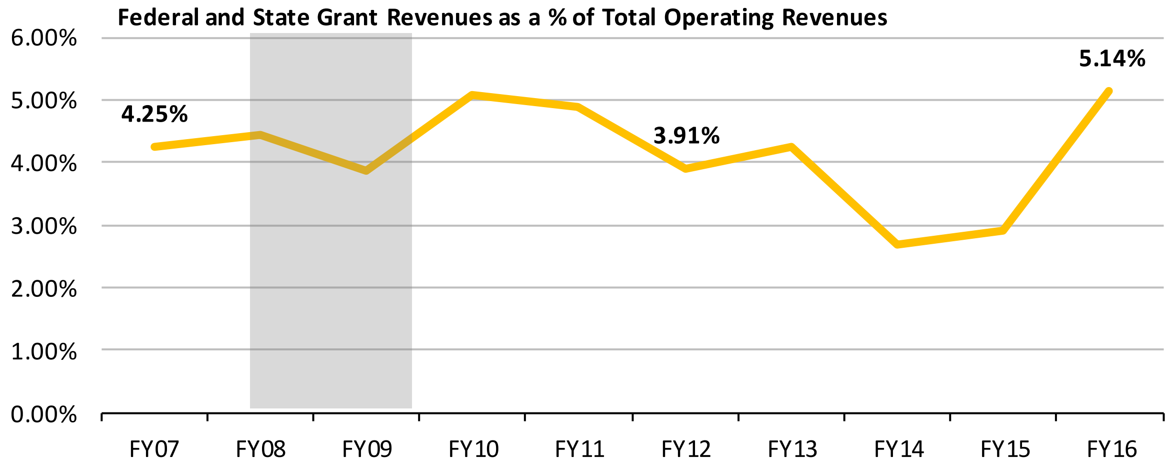
Current Year Activity

Hotel Motel Tax had declined 5.48% through December.

Formula:

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

GRANT REVENUES



What are Grant Revenues?

Grant revenues generally come from state and federal agencies for specific purposes. An overdependence on grant revenues can be harmful – especially during economic downturns when Federal and State governments struggle with their own budgets. Nevertheless, a municipality may want to maximize the use of grant revenues consistent with its service priorities.[4] The primary concern is to understand the local government's vulnerability to reductions of such revenues and to determine whether the local government is controlling the use of external revenue or whether these revenues control policies.

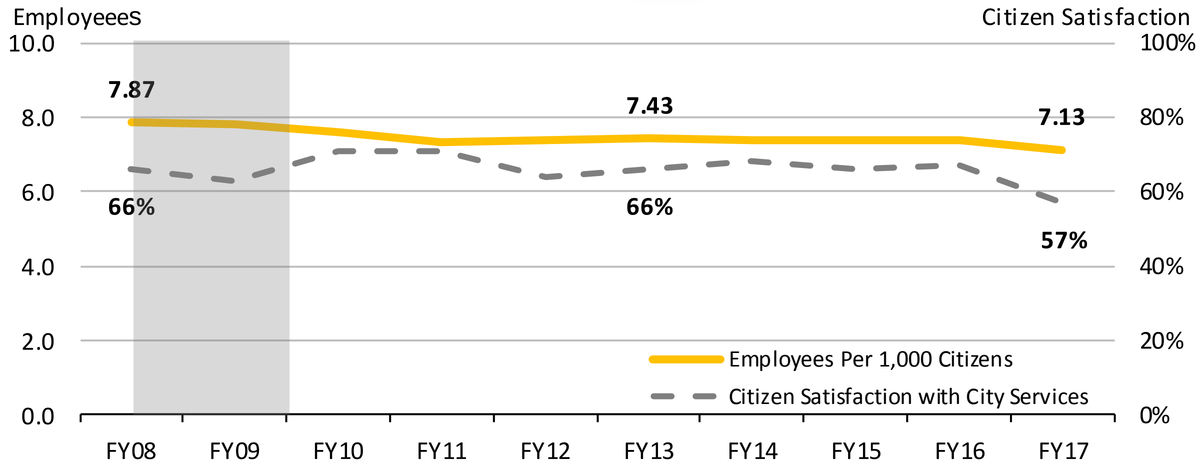
Why is This Important to Oklahoma City?

The three largest granting agencies, Department of Housing and Urban Development, Department of Transportation, and Department of Homeland Security, accounted for 84% of the $74.4 million in grant revenue for FY16. Some of these grants are for specific programs, capital improvements or federal reimbursements for natural disaster recovery. For example, FY16 had some anomalies in grant awards including $9.5 million from a CDBG Disaster Recovery Grant for Generators at the Draper Water Treatment Plant and other facility improvements; $9.3 million in Section 108 Loan Guaranty ($6.9 million for 21C Hotel and $2.4 million in small business loans); $8.5 million from DOT for Airport improvements; $6.4 million from Homeland Security for disaster relief from an ice storm and tornado damage and $7.1 million from the EPA that came as a pass through from the State as a loan to the Oklahoma City Water Utilities Trust (OCWUT). Without grant funds, many of the social services and capital project programs funded by the grants would cease. Grant revenues, as a percentage of operating revenues, typically remains in the 4% to 5% range. In FY14 Federal and state grant funding was at their lowest level since 2001 and the indicator went from neutral to negative. There was some recovery in FY15 that led to grant funding providing 3.4% of operating revenues. In FY16 grant funding accounted for 5.14% of operating revenues and was returned to a neutral rating.

Formula:

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

EMPLOYEES PER 1,000 CITIZENS



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.[5]

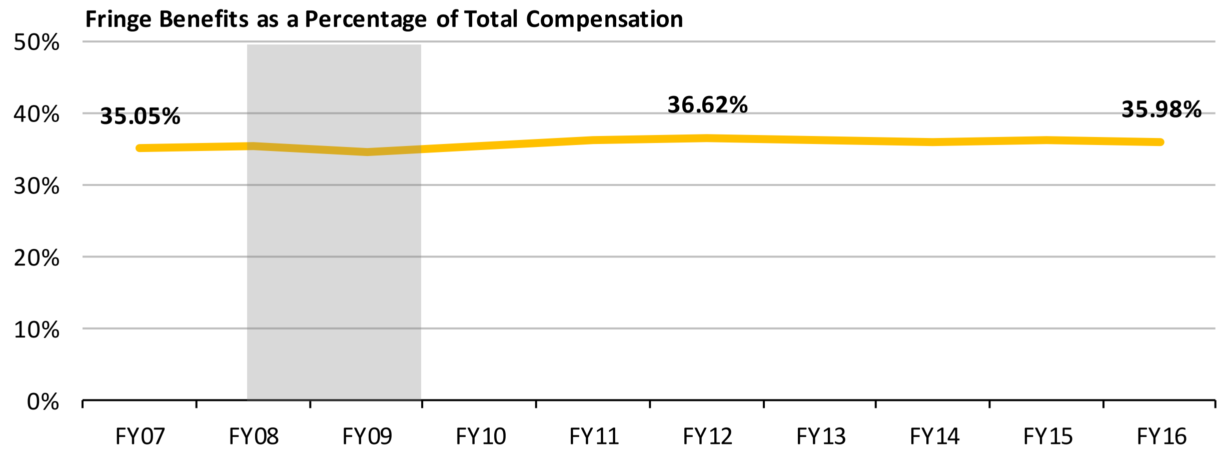
Why is This Important to Oklahoma City?

The number of employees per 1,000 citizens provides a quantitative measure of government efficiency, while citizen satisfaction provides a qualitative measure. Population grew 7.3% over the 5-year period and the number of employees grew 2.9%, resulting in a slight improvement in the ratio of employees per 1,000 citizens. However, because it remained relatively flat during the 5-year and 10-year period the indicator was rated neutral. To ensure that the ratio of employees to population is sufficient to maintain service levels and address citizen priorities we have included results from the annual citizen survey in the chart. The most recent citizen survey, completed in August 2016, reported 57% of citizens were satisfied with city services. Although it is a decline from 67% satisfaction in FY16, it was still significantly higher than the national average of 49% for other large cities in the U.S. which was a contributing factor in keeping this rating neutral.

Formula:

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

FRINGE BENEFITS



What are Fringe Benefits?

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

Why is This Important to Oklahoma City?

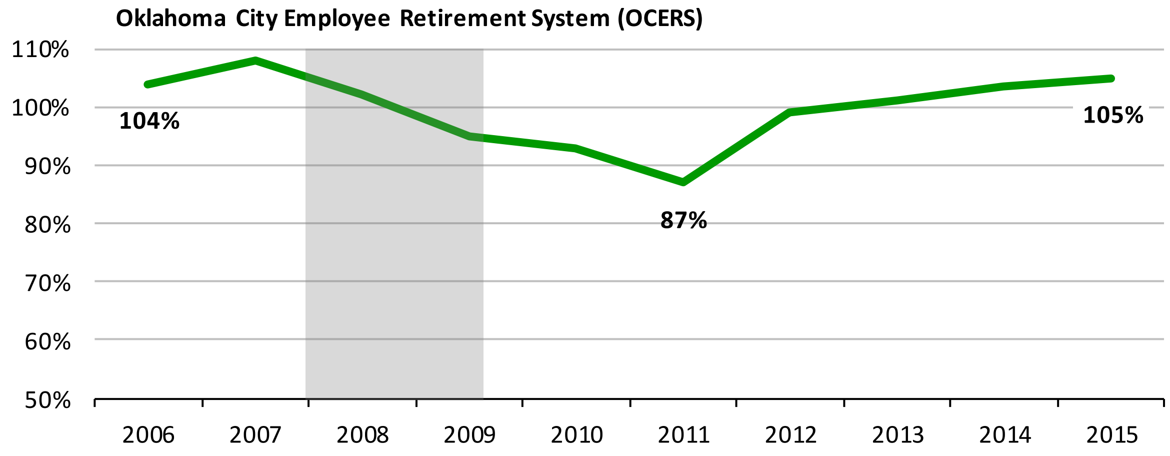
Fringe benefit expenditures as a percentage of total compensation were relatively steady over the last ten years averaging 36% per year. Staff has worked to keep benefit cost increases from growing too fast through a number of initiatives, such as higher co-pays, additional premium sharing and other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

In this analysis we accounted for the value of paid time off such as sick and vacation leave and included those costs as part of fringe benefits. The analysis also includes the contributions being made for retiree health insurance as a fringe benefit. Post employment health insurance is currently made on a primarily pay-as-you-go basis. This differs from advance funding, which is the method used for pension contributions. The pay-as-you-go basis only reflects current costs for former employees and does not provide an accurate reflection of the full cost of the benefit for current and future retirees. The Other Post Employment Benefits Trust (OPEBT) was established in 2008 to begin to address the issue of future liability and funding levels for retiree health insurance. Since establishment of the OPEBT in 2008, the City has been making contributions in excess of pay as you go funding. At the end of FY16, OPEBT's current funding level was 8.9%. Due to the steady percentage of benefits as a percentage of total compensation, the indicator remained neutral.

Formula:

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

PENSION FUNDING RATIO



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.

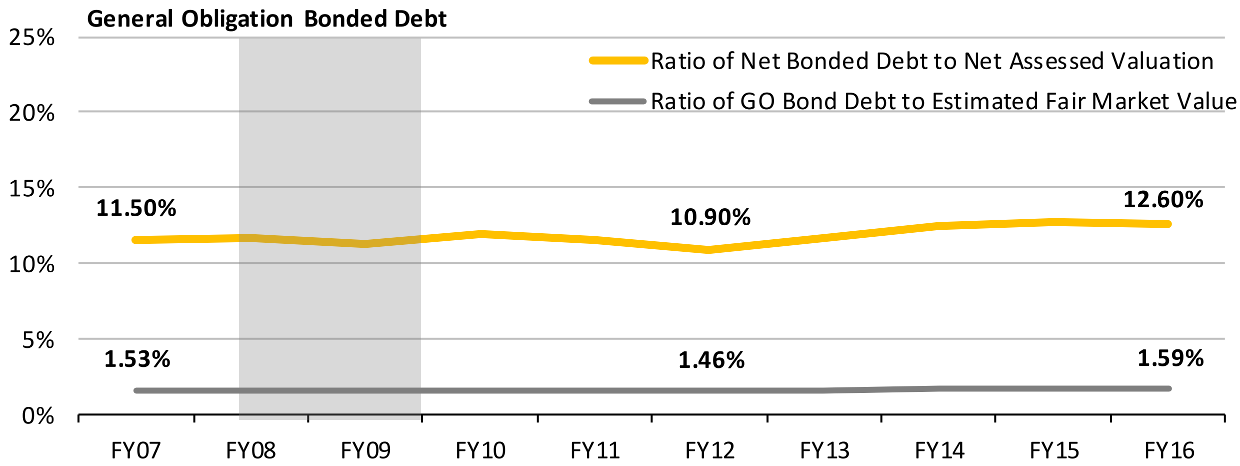
Why is This Important to Oklahoma City?

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 105% 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

LONG-TERM DEBT



How is Long Term Debt Measured Here?

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

Why is This Important to Oklahoma City?

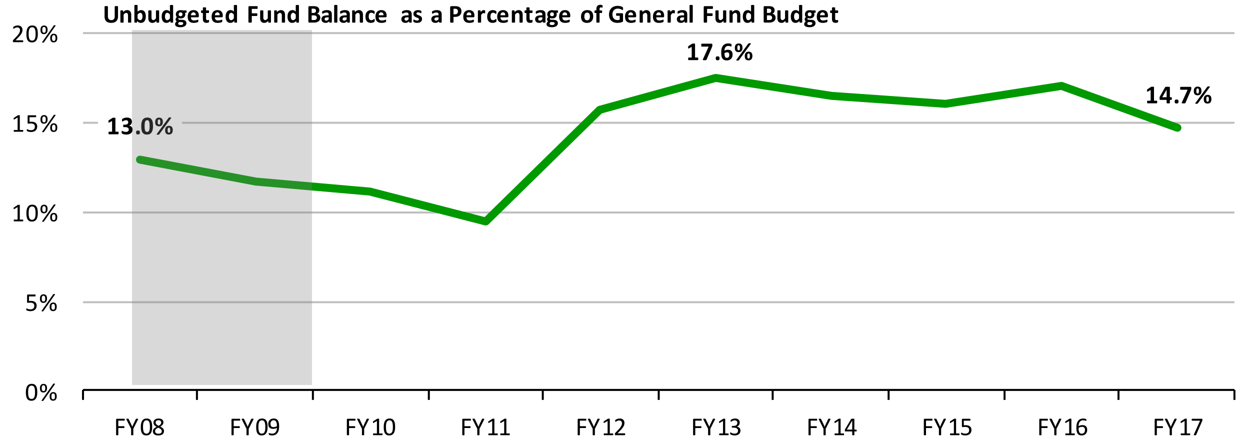
Oklahoma City's long-term debt ratio has remained consistent from FY07 to FY13 averaging 11.5% with only slight variations. For the last three years, the ratio has averaged 12.6%. The increased debt was used to fund projects such as a new Police Headquarters, new Municipal Court Building, and more than $110 million for streets. Although the debt grew slightly faster than net taxable assessed value over the five-year period the mill levy remained below the informal policy of 16 mills and therefore, the long-term debt ratio of 12.6% in FY16 is viewed as being stable as a percentage of assessed valuation and is rated as neutral.

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

Formula:

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

FUND BALANCE



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.

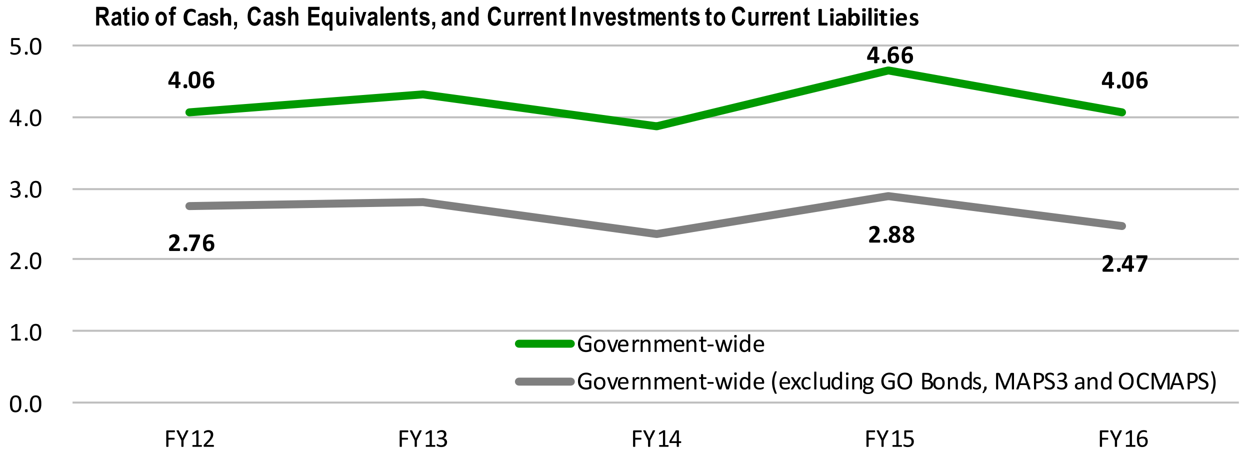
Why is This Important to Oklahoma City?

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

Formula:

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

LIQUIDITY



What is Liquidity?

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

Why is This Important to Oklahoma City?

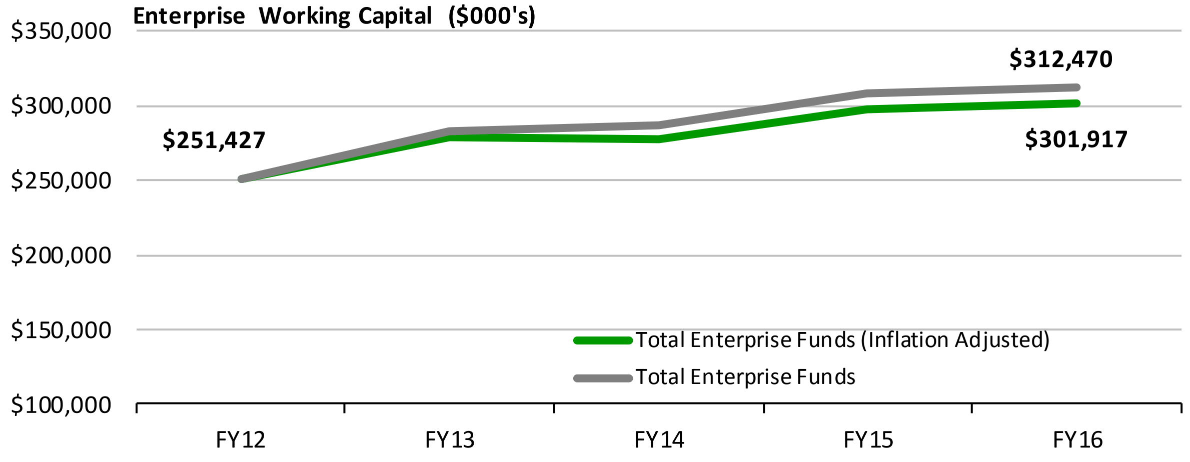
During the last five years, the liquidity ratio has remained fairly steady averaging 4.19 annually.[8] In FY14 the ratio declined due to completion of planned capital projects and then increased to 4.66 in FY15 as assets grew faster than liabilities. The change in FY16 was due to liabilities growing faster than assets and largely attributed to the Oklahoma City Water Utilities Trust (OCWUT) as work began on the second Atoka pipeline. The ratio has remained very healthy over the last five years, as such this indicator is rated positive.

A secondary data set provides a more practical look at liquidity. This additional data set is not calculated using a government accounting standard, instead it excludes three of the largest funds, General Obligation Bonds, MAPS 3, and OCMAPS, which are restricted for the purpose of funding capital projects. This *"practical"* liquidity rate has also trended positive during the five year period and provides insight into our cash position for operations. It finished FY16 at 2.47 indicating that operational funding is also very healthy.

Formula:

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

ENTERPRISE WORKING CAPITAL



What is Working Capital?

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

Why is This Important to Oklahoma City?

Working capital at $312 million ($301 million in inflation adjusted dollars), and a liquidity ratio of 2.33, suggests that Oklahoma City's enterprises, as a whole, were able to make expenditures for capital outlay and improvements after paying all current liabilities incurred from daily operations. Over the five year period, Enterprise Funds in inflation adjusted dollars increased 20% and the liquidity ratio remained well above the desired level of one, indicating a positive trend.

Formulas:

Enterprise Working Capital = Current Assets – Current Liabilities

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

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.
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8 Nollenberger 23.
9 Nollenberger 51.
10 City of Oklahoma City Comprehensive Annual Financial Report, 2016.
11 City of Oklahoma City Comprehensive Annual Financial Report, 2016.
12 Nollengerger 79.
13 City of Oklahoma City Comprehensive Annual Financial Report, 2016, Statistical Table 13
14 City of Oklahoma City Planning Department.
15 Nollenberger 120.
16 City of Oklahoma City Statement of Debt Service Fund and Requirements for Ad Valorem Tax Levy, 2016
17 Price Edwards Oklahoma City Mid-Year 2016 Office Market Summary, November 2016.
http://www.priceedwards.com/sections/market/downloadSecureFile.php?id=53
18 Wilmoth, Adam. “Oil industry’s significance returns to 1982-levels”, The Daily Oklahoman 16 Jan 2014 Print
19 Baker Hughes Rig Counts. January 2016 http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm
20 City of Oklahoma City Public Works Department, December 2016

FIVE-YEAR FORECAST

FY 2018-2022

SECTION 5

FORECAST ISSUES





The goal for this section of the forecast is to provide an “early warning system” about significant financial issues that are generally beyond the scope of the annual budget process.

SUCCESSFUL OUTCOMES

Every year the Office of Management and Budget asks staff from each Department to identify the top three financial issues they will be facing over the next five years. When the need is met, the issue drops off the list. Issues with successful outcomes aligned financial resources with long-term service objectives and were made possible by identifying issues early so that staff could develop and evaluate strategies that were then recommended to City Council. In order to share those successful outcomes and close the communication loop, 15 previous issues have been summarized beginning on page 85.

EARLY WARNING SYSTEM

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

BY THE NUMBERS

15 Successful Outcomes

8 Major Issues Highlighted

54 Financial Issues Identified by Departments

8 New Issues

Highlighted Issues. Issues that have a significant impact on services provided to citizens, City operations, or funding sources are highlighted for additional attention and begin on page 90. This year we are highlighting eight major issues for additional attention. Some of the eight are cross-cutting issues that impact multiple departments, such as capital maintenance costs and budget reductions. The discussion on each issue includes the possible direction or next steps for the issue to stimulate conversation and action.

Department Issues. Overall, there are a total of 54 issues that departments are facing, including the nine major issues highlighted. A complete list of the issues can be found on pages 98-99. Also included is a narrative from each department that provides a short description of three most critical issues they are facing over the next five years.

LONG-TERM REVENUE ENHANCEMENT

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

SUCCESSFUL OUTCOMES

BODY WORN CAMERAS

DEPARTMENT:
Police

OVERVIEW:
Pilot program was implemented outfitting 100 field officers with body worn cameras as a tool to document contacts with the public. The cameras capture video and audio recordings, which provide documentation/evidence of law enforcement activities including traffic stops, public contacts, emergency responses and critical incidents. The recordings improve the level of documentation of arrests and other police actions. The program is anticipated to reduce complaints and protect officers from false allegations of misconduct, as well as provide the City with video evidence in responding to tort claims and lawsuits.

STATUS:
Implemented in 2016

FUNDING SOURCE:
General Fund

COST:
$0.5 million in FY17 but could increase to $2.4 million over the next five years if fully deployed

BUS NIGHT SERVICE

DEPARTMENT:
Public Transportation & Parking

OVERVIEW:
The Public Transportation and Parking Department launched a pilot program in 2015 that extended bus service on two routes (11 and 23N) until midnight Monday through Friday with one hour frequency. Due to the success of the pilot, night service was expanded to include two additional routes (5 and 13N). With four routes, night bus service is available on a crosstown route on the northside of the City, a crosstown route on the south side of the City, and routes traversing north to Memorial Road and south to Oklahoma City Community College.

STATUS:
Pilot Program implemented in 2015, expanded in January 2016. Includes four fixed routes and paratransit service.

FUNDING SOURCE:
Annual General Fund payment to Central Oklahoma Transportation and Parking Authority (COTPA)

COST:
$670,000 annually

COURT RECORDS SYSTEM

DEPARTMENT:
Municipal Court

OVERVIEW:
The new Municipal Court Management System (MCMS) replaced a 23 year old legacy system. The implementation of the new system allowed the court to improve the efficiency and effectiveness of handling cases, while providing a path to eliminate paper. The advanced technology allowed the court to launch the first phase of E-citations in parking enforcement and offers the flexibility to expand and improve processes.

STATUS:
Implemented in September 2016

FUNDING SOURCE:
Police/Fire Equipment Sales Tax for system; General Fund for annual maintenance

COST:
$2.1 million for system
$308,000 estimated for annual maintenance

SUCCESSFUL OUTCOMES

EMPLOYEE MEDICAL CLINIC

DEPARTMENT:
Personnel

OVERVIEW:
The employee medical clinic was a major component in support of the City's wellness initiative and effort to control the cost of the health insurance plans. The clinic, operated by CareATC, provides non job-related primary care services to employees and non-Medicare eligible retirees. In its first 10 months of operations, the clinic served 2,411 eligible participants.

STATUS:
Completed. Clinic Opened in September 2015

FUNDING SOURCE:
Oklahoma City Municipal Facilities Authority (OCMFA) and Oklahoma City Post Employment Benefits Trust (OPEBT)

COST:
$1,365,216
Estimated Annual Operating Cost

ENERGY MANAGEMENT

DEPARTMENT:
Finance

OVERVIEW:
An Energy Program Administrative Coordinator position was added to increase the effectiveness of the City's energy management program. EnergyCAP software is now being used to capture, track and audit City utility usage and billing information for electric, natural gas, and steam with work underway to add water and wastewater accounts. Energy Management also began reporting the City's total energy usage in Leading for Results and established baselines for comparison. Projects in process include department approval of utility bills in EnergyCAP, automatic interface with the City's financial system for payment of approved bills, and detailed facility level reporting to departments.

STATUS:
Ongoing

FUNDING SOURCE:
General Fund

COST:
$201,912
FY17 Energy Management Program Budget

IMPACT FEES

DEPARTMENT:
Public Works & Parks

OVERVIEW:
New development impact fees were established by Council on April 26, 2016 to help infrastructure keep pace with growth in Oklahoma. The fees are charged on a per-square-foot basis for new residential and commercial development projects and will be used to build infrastructure needed to serve the new development. The new impact fees are for streets and parks systems.

Using impact fees to help pay for new infrastructure allows more revenue from general obligation bonds to be spent on improvements instead of new construction.

STATUS: Development Fees effective January 1, 2017

REVENUE GENERATED:
$2.0 Million Projected for Parks
$6.7 Million Projected for Streets

SUCCESSFUL OUTCOMES

MICROFILM CONVERSION

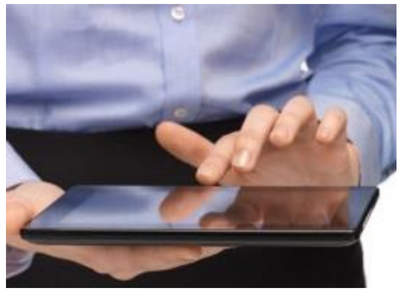
DEPARTMENT:
City Clerk's Office

OVERVIEW:
The City Clerk's Office converted rolls of microfilm to a sustainable digital format. The microfilm rolls contained more than 1.6 million pages of City Council proceedings from 1979 through 1992. The transfer of records to a viable format has provided staff access to the records and ensures requests for records from the public can be made in a timely manner.

STATUS:
Completed

FUNDING SOURCE:
Project C80117 - Capital Improvement Project Fund

COST:
$12,886



MOBILE COMPUTING

DEPARTMENT:
Municipal Counselor's Office

OVERVIEW:
Microsoft Surface Pro Tablets were deployed to Prosecutors in the Criminal Justice Line of Business as part of a joint project between Municipal Courts and the Municipal Counselor's Office. The deployment of mobile computing devices allows Prosecutors to enter and retrieve data electronically in real time from the new Courts Records Management System and Electronic Citation System that were implemented in September 2016. In addition, Prosecutors are able to use the devices to maintain network connectivity, making it easier to respond to emails, update schedules and work products when Court is not in session.

STATUS:
Completed; Devices Deployed June 2016

FUNDING SOURCE:
Municipal Courts General Fund

COST:
$22,302
For 10 devices with docking stations, keyboards and licensing

OPEB LIABILITY

DEPARTMENT:
Personnel and Finance

OVERVIEW:
To address the Other Post Employment Benefit (OPEB) liability, City Council approved two changes impacting the retiree health insurance subsidy. The first change increased the eligibility requirement for subsidized retiree health insurance to employees who have worked at least 15 years with the City and have reached age 60. The second change eliminated subsidized health insurance to employees hired after January 1, 2017 when they retire. Health Insurance would still be available, but they will have to pay the full premium.

STATUS:
Increased eligibility effective January 1, 2017; Ending subsidized Retiree Health Insurance applies to employees hired after January 1, 2017

FUNDING SOURCE:
All Operating Funds

REDUCED LIABILITY:
$90,000,000 projected reduction in liability in the next 10 years with eventual elimination of the liability

SUCCESSFUL OUTCOMES

PEOPLESOFT UPGRADES

DEPARTMENT:
Information Technology

OVERVIEW:
The last major upgrade to the City's Financial and Human Resources Software, PeopleSoft, was to version 9.2 in 2014. Support of this version will continue through March 2018 at which time another major upgrade is scheduled at an unfunded cost of $2 million. Due to a change in strategy by the Information Technology Department, patches and updates are being made on a regular maintenance schedule using current resources rather than deferring maintenance for longer periods of time. The incremental changes implemented by IT will cumulate into the major upgrade needed in 2018.

STATUS:
Ongoing

FUNDING SOURCE:
Information Technology Internal Service Fund

COST:
$644,275
Annual PeopleSoft Maintenance Budget

PRIMARY DATA CENTER

DEPARTMENT:
Information Technology

OVERVIEW:
The Primary Data Center was constructed to ensure city operations and finances that depend on the City's network experience minimal interruptions. The facility meets industry standards for a Tier 3 data center meaning it has redundant components, dual-powered equipment and multiple uplinks. As a stand-alone building it is physically separated from the backup data center and was designed per FEMA 361 to withstand tornadoes and severe storm events.

STATUS:
Contract Awarded: June 2015
Final Acceptance:

FUNDING SOURCE:
Capital Improvement Fund

COST:
$2,116,802
Building construction

SOLID WASTE COLLECTION

DEPARTMENT:
Utilities

OVERVIEW:
The major long-term operating agreement for solid waste collections was re-bid and awarded in 2016. A six-year service agreement, with an optional six-year renewal, was awarded to Waste Management of Oklahoma, Inc. for residential solid waste collection. The agreement included service level improvements that will be phased in over time including: new collection routes to maximize efficiency, every-other-week 96-gallon recycling program for urban customers, pilot recycling stations for rural customers, and a gradual move to a containerized collection program.

STATUS:
Complete; Waste Management Service Agreement approved on March 22, 2016; phased improvements approved by OCEAT on August 2, 2016

FUNDING SOURCE:
Oklahoma City Environmental Assistance Trust

COST:
$23.77 Million Annually

SUCCESSFUL OUTCOMES

WASTEWATER TREATMENT

DEPARTMENT:
Utilities

OVERVIEW:
The major long-term operating agreement for Wastewater Treatment was re-bid and awarded in 2016. A five-year service agreement, with the option for two, five-year renewals, was approved with Severn Trent Environmental Services, Inc. for management, operation, and maintenance of wastewater treatment facilities, solids management and industrial pretreatment program services. The agreement strengthened service requirements, performance standards, established minimum staffing and reporting responsibilities.

STATUS:
Contract Awarded: March 2016
Service begins January 2017

FUNDING SOURCE:
Oklahoma City Water Utilities Trust

COST:
$13,235,211
Estimated Annual Cost

WATER CONSERVATION

DEPARTMENT:
Utilities

OVERVIEW:
Residents and businesses were encouraged to conserve water indoors and outdoors by supporting Oklahoma City's Progressive Water Conservation Program. The program focuses on public education through publications, its website, SqueezeEveryDrop.com, and OSU Extension services. The program is helping to change attitudes about how water should be conserved and used wisely while continuing a mandatory odd/even watering schedule and two-tier rate plan that encourages conservation.

STATUS:
Ongoing

FUNDING SOURCE:
OCWUT

COST:
$615,000 annually for conservation education, promotion of water efficient landscaping methodologies and facilities and continuation of odd-even water conservation program with a goal of improving public appreciation of limited water resources and sustainability

WATER RIGHTS SETTLEMENT

DEPARTMENT:
Utilities

OVERVIEW:
The Oklahoma City Water Utilities Trust (OCWUT) will have access to water from Sardis Lake, in Southeast Oklahoma, as the result of a settlement agreement reached on August 16, 2016 with the Chickasaw and Choctaw Nations of Oklahoma, OCWUT, The City of Oklahoma City, and the State of Oklahoma Water Resources Board. The agreement will be governed by a system of lake level release restrictions and will meet raw water supply growth needs for approximately sixty years.

STATUS:
Settlement Agreement August 16, 2016; Signed by President Obama December 16, 2016

FUNDING SOURCE:
OCWUT

COST:
$12.5 million by OCWUT to the State of Oklahoma pursuant to Water Storage Transfer Agreement, $5 million to Conservation Projections Funds, and annual assessment of Sardis Lake operational and maintenance costs to the US Corp of Engineers

HIGHLIGHTED ISSUE

FACILITY CAPITAL MAINTENANCE COSTS

The City has a long history of public support for major capital improvements funded debt free through temporary sales taxes, such as MAPS and MAPS 3, or through the issuance of General Obligation Bonds. As these facilities age capital maintenance is needed to extend the life of the facility.

The MAPS Use Tax fund that had been funding operations and maintenance for the original MAPS Projects is near depletion and a new funding source will be needed to fund capital maintenance on the original MAPS projects, the MAPS 3 projects after they are put into public use, and projects funded through General Obligation Bonds and other capital funds.

Original MAPS Projects. In 1993, City voters approved a temporary one cent sales tax to fund a capital improvement program that included nine projects designed to revitalize Downtown, improve Oklahoma City's national image and provide new and upgraded cultural, sports, recreation, entertaining and convention facilities. A MAPS Use Tax was enacted as the same time as the MAPS Sales Tax with funds being set aside for operating, maintaining, and replacing capital as needed on the MAPS projects. Those original nine MAPS projects have been in public use for 10 to 20 years and are in need of capital maintenance that is beyond the remaining fund balance from the MAPS Use Tax.

MAPS 3 Projects. In 2009, City voters once again approved a temporary one cent sales tax known as MAPS 3 to fund eight more projects designed to improve the quality of life in Oklahoma City. During the MAPS 3 Program, Use Tax revenues have primarily provided public safety equipment funding that has primarily been fleet and equipment replacement; no funds have been set aside to provide for capital maintenance once the projects are put into public use.

General Obligation Bond and Capital Projects. The 2007 General Obligation Bond Authorization provided funding for several new facilities including a new Police Headquarters, a new Municipal Court, new fire stations and other municipal facilities. A funding source has not been identified to provide for capital maintenance on these facilities.

POSSIBLE DIRECTION AND NEXT STEPS

- **Temporary Use Tax**. A new temporary Use Tax could be proposed as a companion item to a Sales Tax initiative should it be submitted to municipal voters for consideration. The temporary Use Tax could be designated for capital maintenance and/or public safety equipment.

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

- **Facility Charge.** Additional facility charges could be assessed to tickets and admissions at venues used by the public. The proceeds from the facility charge would be remitted to the City for future capital maintenance needs at those facilities. Facility charges have become more common and are typically added at the end of a retail transaction when sales tax is charged. By segregating Fees and Taxes from the ticket or admission fee, facility operators which may be third parties, are able to provide transparency in the transactions. Facility charges are currently added to tickets sold at the Cox Convention Center, Chesapeake Energy Arena, Chickasaw Bricktown Ballpark, and the Civic Center.

HIGHLIGHTED ISSUE

FUNDING STREET IMPROVEMENTS

Citizen's top priority for the past several years, based on the Citizen Survey, has been the condition of City streets. Satisfaction has steadily declined with only 9% of citizens expressing satisfaction with street conditions in 2016 and 80% of citizens indicating streets needed more emphasis during the next two years.

Street improvements continue to be made with the assistance of the 2007 General Obligation (GO) Bond Fund and General Fund. Beginning in FY14, $250,000 in annual support from the General Fund was added to the Public Works budget each year cumulating to an annual supplement of $1 million for street maintenance in FY17. However, the General Fund will not be able to provide substantial funding and identifying other funding streams to support the annual cost of street improvements is critical. These annual costs include city-wide base repair contracts, material purchases for micro-resurfacing and chip sealing programs, the annual pavement data collection service contract, and numerous inter-governmental street maintenance projects with surrounding counties and municipalities.

POSSIBLE DIRECTION AND NEXT STEPS

- **Development Impact Fees**. In April 2016, Council authorized Development Impact Fees that became effective January 1, 2017 are projected to generate $6.7 million annually. Using impact fees to help pay for new infrastructure will allow more revenue from general obligations bonds to be spent on street improvements instead of new construction.

- **Fuel Tax**. Oklahoma City could submit a proposal to municipal voters to pass a *City* Motor Fuels Tax on fuel when it is removed from the terminal or at the pump. This proposed City fuel tax would be in addition to the State Motor Fuel Tax currently charged. The state apportions 1.77% of the current tax to cities and towns through a population based formula with Oklahoma City averaging collections of $1 million annually. It is projected a $0.01 City Motor Fuels Tax could generate approximately $4 million annually. In addition to gaining voter approval, a method for collecting the tax would need to be established.

- **General Obligation Bonds.** Maximizing the use of property taxes, through General Obligation Bonds, for street improvements may be an additional opportunity to provide needed funding. Shifting more of the funding for capital improvements from the General Fund which fund day-to-day operations to property taxes, which is limited to paying debt and judgements, will shift the funding demands to a more appropriate revenue source. Increasing unlisted funds in bond propositions would also provide greater flexibility in selecting projects.

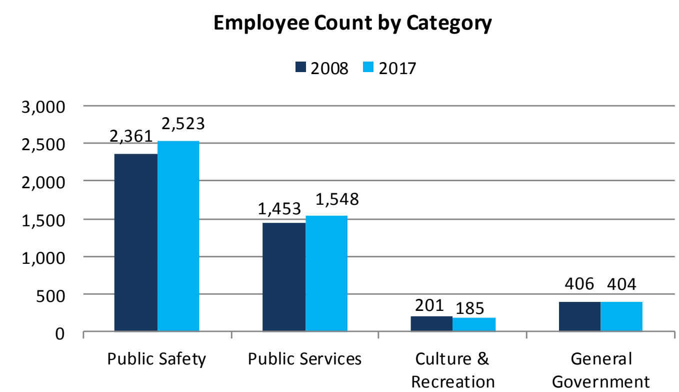
HIGHLIGHTED ISSUE

IMPACT OF BUDGET REDUCTIONS ON OPERATIONS

Cyclical economic changes are expected and the current economic downturn is no exception. The City has weathered most downtowns with minimal disruption to services through strong, conservative fiscal management. The latest economic slowdown has been longer than previous cyclical changes with General Fund revenue collections, especially Sales Tax, slowing since FY12 and actually declining in FY16. In FY17, revenue collections are expected to continue to falter, marking two straight years of declines and the first time sales tax has declined two consecutive years since FY86 and FY87. Although, the proposed FY18 General Fund budget projects revenue growth, the budget is anticipated to be at a funding level that is comparable to FY14.

For several years in a row, departments have been asked to cut their General Fund budgets in order to balance the budget as required by state law. During that time, staff formulated strategies that maximized resources, leveraged technology to gain efficiencies, and ensured city services were available at a level appropriate to the needs of the community. However, many departments are now feeling the stress of those previous reductions as they attempt to maintain service levels and respond to the demand for enhanced services and even new services.

The largest operating expense departments have is personal services and in the General Fund, the personal services category accounts for 73% of the budget. Therefore, when the City has to balance the budget, the area the city has the most flexibility and power is expenditure control and the largest expense is personal services. Over the last 10 years, the number of employees grew 5.41% while the population grew 16.3%. On the surface it would appear as though the City has successfully managed employee growth by gaining efficiencies that kept employee growth at a level comparable to population growth. However, as shown in the chart, the employee growth for the last 10 years has largely been in public safety (6.86% growth) and public services (6.54% growth). General Government departments have seen a 0.49% reduction in employees and Culture and Recreation has seen a 7.96% reduction in employees. Inadequate staffing levels and resources are a common theme in many of the department issues. The immediate outlook is diminished further as General Fund Departments were asked to make a 4% budget reduction in FY18 and Public Safety was asked to make a 1.25% reduction to their General Fund Budgets. It is becoming clear that the current model for funding general operations is not sustainable.



POSSIBLE DIRECTION AND NEXT STEPS

- **Support State Efforts to Expand Sales Tax Base**. Expanding sales tax to services that are currently exempt under State Law would generate additional revenue. Sales Tax is the largest revenue source for the City's day-to-day operations and provides 53% of the funding for the General Fund Budget.

- **Support Efforts to Allow Property Tax for Operations**. Oklahoma is the only state that prohibits municipalities from using property tax for operations. Property tax can only be used to repay bond debt or court judgments.

HIGHLIGHTED ISSUE

LONG-TERM WATER CAPITAL

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

The City's raw water supply comes from the North Canadian River and the Southeastern Oklahoma water supply, which includes Lake Atoka and McGee Creek. Water is transported to Oklahoma City by the Atoka Pipeline which also conveys flow from the McGee Creek. A third water supply, the Kiamichi River, which will also receive flow released from Sardis Lake, in Southeast Oklahoma, has been planned since the 1950's. Additional improvements will be needed to transport the new Kiamichi River water supply to Oklahoma City and deliver it to customers meeting growth needs for approximately sixty years.

Water Rights Settlement

The Oklahoma City Water Utilities Trust (OCWUT) will have access to water from the Kiamichi River, in Southeast Oklahoma, as the result of a settlement agreement reached on August 16, 2016 with the Chickasaw and Choctaw Nations of Oklahoma, OCWUT, The City of Oklahoma City, and the State of Oklahoma Water Resources Board. The agreement was signed by President Barak Obama on December 16, 2016. Water rights will be governed by a system of lake level release restrictions.

Second Atoka Pipeline

The water utility will make a major investment in water supply and Oklahoma City's future when it constructs a second 100 mile pipeline from Lake Atoka to Lake Stanley Draper. Construction of the second water pipeline will begin in 2018. The project will use significant resources from the local engineering and construction communities, as well as, staff resources for permitting, regulatory compliance, and project management. This second pipeline from Atoka will provide adequate raw water supply through at least 2030, and with a few minor improvements, will provide supply through at least 2060 once the Kiamichi Pipeline is constructed and begins operation. The second pipeline is estimated to cost more than half a billion dollars.

POSSIBLE DIRECTION AND NEXT STEPS

- **Rate Adjustments.** The last approved rate adjustment went into effect October 1, 2016. Both Water and Wastewater utilities will need to adjust fees and charges beginning in October 2017 through October 2021 to fund operating and capital programs, including full financing of the second Atoka pipeline. Multiple long-range capital program options and financial plans were developed. Staff is working with a cost of service consultant to prepare rate adjustment recommendations to OCWUT and City Council.

HIGHLIGHTED ISSUE

MAPS 3 OPERATING COSTS

Ongoing funding sources for operation of MAPS 3 projects have not been fully identified. While $777 million is expected to be available for the construction of projects designed to improve the quality of life in Oklahoma City, funding for operations still need to be identified. Costs and exact types of expenses have not been explicitly identified, but it is anticipated that some could be significant. The main focus for operating costs has been on two projects: the Oklahoma City Streetcar which could need up to $4 million for operations and the Downtown Park, which could need more than $2 million for operations.

POSSIBLE DIRECTION AND NEXT STEPS

- **User Fees and Sponsorships.** It is anticipated that venue operators will cover operating expenses for the Oklahoma River improvements, Fairgrounds improvements, and Senior Health and Wellness Centers through user fees and sponsorships.

- **Hotel Tax Increase**. An increase in the Hotel Tax could be used to supplement operating costs for the Oklahoma City Streetcar, which will be operated by the Central Oklahoma Transportation and Parking Authority (COTPA) and the new Convention Center. The Hotel Tax is currently 5.5%, in addition to Sales Tax, and has generated an average of $14.4 million annually for the last three years. Current Hotel Tax collections are restricted to funding the Convention and Visitors Bureau contract, capital improvements at the Fairgrounds, and event promotion and sponsorship.

  COTPA is in negotiations with a contractor to provide operations and maintenance for the streetcar system. Costs associated with starting up operations begin this year and are estimated to grow to $3.9 million for the first full year of operations in FY20.

- **Parking District or Business Improvement District**. A parking district or business improvement district in the area around the Downtown Park could generate revenue that would help offset annual operating costs. Revenue generation may be limited until the area fully develops.

- **Private Partnerships**. A private/public partnership could provide supplemental funding for operating the Downtown Park as a private partner may generate revenue through membership fees, sponsorships, and philanthropy. An agreement with the Myriad Gardens Foundation has been extended to pursue this option for the new Downtown Park.

- **General Fund Support.** The General Fund may have additional pressure to fund annual maintenance costs on sidewalks and trails.

HIGHLIGHTED ISSUE

PUBLIC SAFETY RADIO COMMUNICATION SYSTEM

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

Radio System. The most significant cost is the replacement of the system itself – the microwave transmitters, consoles, software, repeaters and other hardware. The IT Department has hired a consultant to review the existing system, recommend upgrade/replacement options and requirements as well as funding options, and to assist in developing the associated request for proposals for a new system that will allow phased replacement of the current system and radios. Funding identification is a high priority in order to complete the system upgrade/replacement before maintenance ends in 2019. Funding for the Radio System End-of-life replacement/upgrade to Phase II P25 is estimated at $13.1 million.

Radios. Funding for Non-Police/Fire Radio Replacement, estimated at $6.3 million, can be delayed until just prior to completion of the Phase II P25 replacement/upgrade. 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 were 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. The City is currently funding $1.7 million in public safety handheld radio replacements each year as radios reach the end of their seven year life cycle.

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

POSSIBLE DIRECTION AND NEXT STEPS

- **Long-term Financing.** It is anticipated that the system cost could be financed with the vendor over a 15-year period with annual debt payment budgeted across various operating funds. An estimated $1 million per year was included in the expenditure budget estimates to fund a lease or finance option beginning in FY18.

- **Cost Sharing.** Similar to a facility charge, a Radio Fee or Cost Sharing Fee, could be assessed to other agencies using the City's Radio System that would be used to help fund the debt payment and future capital maintenance. The radio fee/cost sharing fee would be in addition to the user fee for service.

- **General Obligation Bonds.** Property taxes could be maximized to fund a radio system and capital maintenance through the authorization and issuance of General Obligation Bonds (GO Bonds). Use of GO Bonds could alleviate pressure on the General Fund which is used for day-to-day operations.

HIGHLIGHTED ISSUE

PUBLIC SAFETY SERVICE LEVEL IMPROVEMENTS

Fire. Three new fires stations were recommended as part of the last fire location study. One of the three stations has been completed and the two additional stations are scheduled to be constructed and opened during the next five years. GO Bonds and MAPS 3 Use Tax, with support from the dedicated Fire Sales Tax will fund the capital improvements, fleet and apparatus, but significant support will also be required to fund operations. Each new station will require an additional 21 positions for a total of 42 new positions. The total cost of additional positions for both stations is estimated to be $3.9 million higher than current staffing cost. The Fire Department will also experience significant overtime exposure due to minimum staffing requirements and contractual obligations.

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 primarily used calls for service and response times to determine recommended staffing levels rather than officers per thousand comparisons. The study recommended additional sworn police and civilian positions for the department. The number of additional sworn police positions recommended in the 2013 updated manpower analysis identified a manpower allocation of 268 sworn personnel to cover 621 square miles of Oklahoma City. A reduced number of personnel was identified in the study if the fringe areas of the City are excluded from receiving comparable police services. 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. From FY12 to FY17, the City added 157 employees to Police; 129 sworn police and 28 civilian positions. Due to the downturn in revenue, 48 Police Positions were frozen, meaning the positions were not funded in the FY17 budget and 18 positions (15 sworn and 3 civilian) were cut as part of the FY17 Mid-Year Budget reductions. Additional staffing will be needed in the coming years to effectively meet the demand for police services.

Public Safety Facilities. A new Police and Fire Training Center is needed to replace aging facilities and consolidate training that is spread out among several locations. The new training center is envisioned to include a driving course, gun range, and live burn facility.

Public Safety Fleet. The City has used funding provided by temporary use taxes to fund Public Safety Fleet 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 $27.2 million in unfunded Public Safety Fleet Replacement needs through FY21.

POSSIBLE DIRECTION AND NEXT STEPS

- **General Obligation Bonds.** Maximizing the use of property taxes for public safety facility and fleets needs through General Obligation Bonds may be an opportunity to provide reduce pressure on the sales tax funds.

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

- **Support Efforts to Allow Property Tax for Operations**. Oklahoma is the only state that prohibits municipalities from using property tax for operations. Property tax can only be used to repay bond debt or court judgments.

HIGHLIGHTED ISSUE

PUBLIC TRANSPORTATION SYSTEM IMPROVEMENTS

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

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

In recently approved legislation, Congress is requiring transit systems to develop a Transit Asset Management Plan that lays out a strategic and systematic process of operating, maintaining, and improving public transportation assets throughout the life cycle of the asset. In order to adequately maintain transit equipment, regular replacement of aging buses and equipment is needed. The last several bus purchases were made using federal earmarks, GO Bond money and ARRA (Stimulus) funds, all of which are no longer available. In the current fiscal year an estimated $8 million is needed for the replacement of buses. The cost will be covered through grant awards and fund balance and be spread out over the next several years. However, in the long term an estimated $1.5 million will be needed annually to supplement federal grant funds for future bus replacement. In anticipation of future needs $2 million is included in the expense budget beginning in FY18. Additionally, to continue with further frequency improvements on existing routes additional buses will need to be added to the fleet. At this time there is no funding source for additional buses.

POSSIBLE DIRECTION AND NEXT STEPS

- **General Obligation Bonds.** Property taxes could be tapped to fund annual busy replacement through the authorization and issuance of General Obligation Bonds (GO Bonds) which could alleviate pressure on the General Fund transfer to COTPA.

- **New Motor Fuel Tax**. A new motor fuel tax could fund a regional transit operation. Securing a dedicated source of funding would provide a regional transit system with the stability and funding levels needed to offer a higher level of service than is currently possible due to funding. Any new taxes would have to be approved by voters.

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DEPARTMENT LIST OF FORECAST ISSUES

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AIRPORTS

Construction of Public Parking Infrastructure Including New Five-Story Parking Garage and Surface Lot

Airport staff is tracking the percentage of public garage parking that exceeds 85% of capacity. Between October 2015 and September 2016 garage parking exceeded 85% capacity 285 days or approximately 78% of the time. More passengers seem to prefer garage parking given Oklahoma City's propensity for severe weather and convenience to the tunnel walkway to enter the terminal. A third parking garage with dedicated vehicle ramps is anticipated in the next few years. A recently completed parking study indicated long term parking garages are near capacity or fully occupied most of the year and some customers are being displaced to surface lots. Prior to the construction of a third parking garage, a new surface lot will need to be built to accommodate approximately 600 spaces lost due to the new garage construction. Consequently Airports is planning a new surface lot that will include an additional cell phone waiting area.

Maintain and Improve Existing Building Systems and Aging Infrastructure

Some of the Airports building systems and infrastructure at Will Rogers World Airport (WRWA), Wiley Post Airport (WPA), and Clarence E. Page Airport are original and date back to the 1960's. The continued development at the City's airports is beginning to put a strain on infrastructure such as storm drainage systems, building systems, and various pavements. Studies were performed to determine the scope of drainage projects over the next five years at WRWA and WPA to accommodate current and future development demands. Drainage projects identified will be programmed in the Airports 5-year capital improvement program. For WRWA these upgrades will include the construction of over 16,000 linear feet of pipe and 1,900 linear feet of concrete boxes to improve drainage. For WPA recommended improvements are focused on the east side of the airport and include new inlets, concrete boxes and regrading that will assist airfield drainage. Aging building systems and facilities continue to be evaluated to determine required maintenance, replacement or disposal. The escalators, elevators, and moving walkways are included in a study to determine the condition and proposed maintenance and replacement of each. An inspection program will be used to identify aircraft ramps and vehicular pavements before they are beyond repair and require complete reconstruction.

Terminal Expansion & Renovation

Several terminal development program studies over the past 15 years support the Airport's long term plan to expand the main terminal. The primary justification for the expansion project is to add more airline gates to meet future demand. A 1998 Terminal Planning Study recommended expansion and renovation of the 1960's era terminal and anticipated three phases to complete the recommended work. Phases I and II were completed over 15 years ago in a pre-9/11 environment and, although the terminal footprint was expanded and updated, the Airport only netted one new gate. The Airports Department is in the process of designing a three-bay expansion to the existing terminal to the east and adds a new four-gate concourse. In recent years air service enhancements such as new non-stop destinations and increasing flight frequency to some cities has resulted in an increase in boarding passengers. These enhancements along with recent airline mergers and requirements for passenger and baggage screening are affecting passenger flow and circulation in the terminal. Also the central terminal has some facility constraints that, if not addressed, could negatively affect customer service and convenience. The expansion of the terminal will have 128,000 square foot of new space consisting of an expanded lobby and additional public circulation space, a new eight lane passenger security screening checkpoint, and larger hold rooms in airline gate areas. The existing checkpoints will be converted to meeter/greeter lounges, eliminating congestion at checkpoint queue and exit lanes. The expansion will address other functional needs such as relocating Airport Police, Airport Operations, and YMCA Military Welcome Center into the terminal building, and updating way-finding signage throughout the entire terminal. There is also a need to create additional administrative office space for Airports staff as well as building lease space for other tenants such as Transportation Security Administration staff.

AUDITOR'S OFFICE

Contracted Information Systems Audits

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

Timely Response to Risk Assessments

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

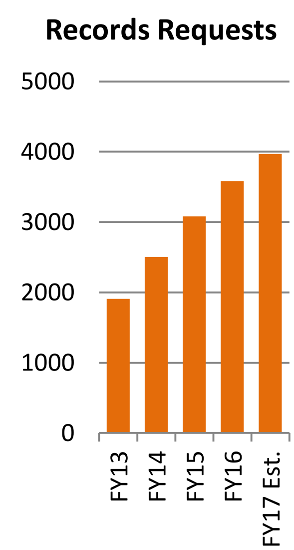
CITY CLERK'S OFFICE

Central Facility for City Records

Establishment of a central facility for City-wide records management will provide timely access to records, ensure record retention and destruction are performed as provided by law, and provide a secure, controlled environment for records. Currently, City records are created in 16 departments across numerous locations, and each department maintains a backlog of inactive records both on paper and electronically. 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 has been gathered and a proposal has been submitted for consideration among the 2017 bond issue projects.

Increasing Demand for Records Services

The City Clerk's Office received 3,081requests for records in FY16 and that number is growing. The number of external record requests fulfilled has increased by 88% over the last 4 years and the amount of staff in the department has been reduced. This has significantly increased the workload of Records Control Technicians in the Information Program. In addition to responding to requests; publication notices, meeting notices, and land document filings must be processed in a timely manner so project work can begin on schedule. The numbers of land document filings have increased an average of 10% every year. Staffing levels have been reduced in the City Clerk's Office despite these increases in workload. An additional staff member would increase productivity and ensure the demand for service is met.



DEVELOPMENT SERVICES

Abandoned Buildings Program

The number of vacant and run-down structures in our city is growing and poses increasing threats to the stability of neighborhoods and safety of our citizens. Efforts have been made to stabilize neighborhoods through increased property maintenance code enforcement. However, an increase in properties that are not rehabilitated by their owners may require an increase in funding to abate them through demolition.

Improving Live Release Rate
Reaching a 75% live release rate is the top priority for Animal Welfare. While continued improvement has been made toward this goal, it still has not been reached. Keys to reaching this goal are lowering animal intakes and increasing the number of animals adopted or transferred out. Increased staff support is needed to maintain and increase these programs. Central to that support are funding for positions that were implemented through grant funding. These include a part-time Volunteer Coordinator, Adoption Coordinator, Foster Coordinator and Transfer Coordinator. An increase in media involvement and program promotion may also warrant the addition of a Public Information Officer.

Increased Technology Demands
The Development Services Department increasingly relies on technology to effectively operate its programs. The increase of technology demands in Development Services, as well as other City departments, requires a parallel increase in Information Technology (IT) resources to implement and maintain the technology. Development Services has an immediate need for resources to address Accela implementation and maintenance; accessing and collecting development fees; customer friendly website; scanning support for Subdivision and Zoning, and the Development Center. An IT position within the Development Center would enable several current manual functions to be automated, which would result in improved process efficiencies and customer satisfaction.

FINANCE

Facility Capital Maintenance Costs *(Highlighted Issue – See page 90 for additional information)*

NEW **Impact of Budget Reduction on Operations** *(Highlighted Issue – See page 92 for additional information)*

MAPS 3 Operating Costs *(Highlighted Issue – See page 94 for additional information)*

Retiree Health Benefits - OPEB *(See page 108 for additional information)*

FIRE

Facility Renovations and Replacement of Personal Protective Equipment
Renovation of Fire Stations is needed. Damage from deferred repairs can increase the cost of projects and decrease the overall quality of the work and living environment in fire stations. In February 2015, the department hired an architectural firm (MA+ Engineering) to perform an extensive evaluation of facilities and make recommendations that include cost estimates. The evaluation was completed in September 2015 and the funding estimates are significant. The report has been reviewed by the department for future funding needs and will be used for prioritization of facility renovations, station rebuilds and potential station relocations. Replacement of personal protective equipment (PPE) is also of significant concern as a majority of it will be nearing the end of its ten-year life cycle.

Public Safety Fleet *(Highlighted Issue – See page 96 for additional information)*

Public Safety Service Level Improvements *(Highlighted Issue – See page 96 for additional information)*

GENERAL SERVICES

Americans with Disabilities Act (ADA) Compliance

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

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

Facility Asset Management

Industry standard for square feet maintained per Full-time Equivalent (FTE) is 55,000, including immediate trades' supervisors, but excluding administration. Due to the current fiscal year budget cuts, General Services' employees, including trades supervisors, are currently maintaining 87,320 square feet of building space per FTE. The problem is compounded by the number of facilities/sites (252) in an area covering approximately 620 square miles. The portfolio of properties serviced by General Services continues to grow at a greater rate than the number of FTEs to maintain them. The new Fire Station #26, the new Southwest Patrol Division (Police), and the new Police Headquarters have been added while no sites were closed. This was an additional 96,526 sq.ft. of space maintained.

Industry research shows that preventive maintenance is 12% to 18% more expensive than predictive maintenance. General Services is working to move from preventive maintenance to the more effective and efficient predictive maintenance to reduce facility/mechanical downtime. Nine additional licensed trades' people are needed to accomplish predictive maintenance and eventually eliminate deferred maintenance in the city facilities currently maintained and the new facilities already scheduled for construction.

General Services also needs funding re-instated to address discretionary cleaning, carpet cleaning, hard surface floor treatments and window washing in all downtown campus, Central Maintenance Facility and Southwest Library sites.

Fleet Services

The average age of the general fleet has the potential to become an issue during the next five years. Aging vehicles require more maintenance, which means they are out of service more often and cost more to operate. When vehicles are out of service, the functions they support cannot be carried out resulting in lower levels of service to citizens. Staff will continue to monitor the strategic fleet replacement plan and recommend enough funding to ensure equipment availability.

INFORMATION TECHNOLOGY

Public Safety Radio Communications System *(Highlighted Issue – See page 95 for additional information)*

MUNICIPAL COUNSELOR'S OFFICE

Emerging and Complex Areas of Law

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

In FY17 the Municipal Counselor's Office lost three attorneys due to budget cuts. The positions were not vacant and the work performed by those attorneys has been absorbed by seven other attorneys in addition to their regular work. The Municipal Counselor's Office will have significant difficulty in providing legal services to all City Departments, Trusts and Commissions if additional budget reductions are required. In addition to recovering the three lost attorney positions, two new staff positions are needed and have been requested for several years: an Assistant Municipal Counselor I in the Labor and Employment Legal Services Line of Business and, one full-time Legal Secretary in the Civil Litigation Line of Business.

Increased Operating Costs

Certain operational expenses, particularly litigation/court costs, continue to increase annually and fluctuate from year to year. Office copiers and scanners will be in need of replacement or purchase over the next few years at a projected cost of approximately $82,662.

MUNICIPAL COURT

Business Process Changes

Municipal Court implemented the new Court Records Management System in September 2016. Phase I of the new system included Electronic Citation and Parking Software which is used by the Parking Enforcement Division of Oklahoma City Police Department. Phase II of the Electronic Citation will be implemented in the fall of 2017 for uniform citations. Municipal Court would like to offer the Electronic Citation issuance system to Development Services, Code Enforcement and Animal Welfare Divisions. However, funding will be needed to purchase additional handheld devices and associated maintenance costs.

The new Court Records Management System affords Municipal Court the opportunity to enhance services as technology advances. However, the processes are more complex in the new system and additional part-time employees have been hired to answer calls and accept phone payments, which allows the full-time clerks to review and update cases accurately, to avoid any warrants being issued in error. In the future, there will be additional hardware, software and maintenance expenses as the system is continuously enhanced.

In addition to new the new records system, Criminal Justice Reform has played a vital role in the process of addressing cases. Municipal Court implemented a Marshal Assist Program which allows warrants to be cleared during normal business hours in lieu of defendants being jailed. There was an internal audit conducted on the program and the report revealed that overall the program has been a success. Once the new building is completed, a full implementation of this program should significantly reduce the number of defendants being jailed on City misdemeanor warrants.

The continuous reform efforts have added processes and changed our business. An example is the eight weekly indigency hearing dockets that have been added. Additional clerks will be needed to accommodate the changes as they are implemented.

To assist indigent defendants, the City has a contractual agreement with Legal of Aid of Oklahoma to provide legal representation for up to 2,000 eligible indigent defendants charged in Oklahoma City Municipal Court. Currently, they are providing legal representation to all eligible juvenile defendants and indigent adult defendants charged with offenses carrying the penalty of incarceration. However, indigent jailed defendants that are charged with traffic or criminal offenses are not afforded the opportunity to speak with Legal Aid about their cases. As reform efforts continue, additional funding not to exceed $250,000 is desired to go the extra step to offer all jailed/indigent defendants the opportunity to be represented or speak with a public defender.

Loss of Public and Employee Parking at Municipal Court

For over ten years, the Municipal Court leased two parking lots adjacent to the Court from the Oklahoma City Urban Redevelopment Authority and contracted with COTPA to manage them. The lots provided 300 parking spaces for patrons and employees of the Municipal Court, Municipal Counselor's Office, and Civic Center. There were approximately two hundred parking spaces available for Municipal Court patrons, attorneys, and jurors. These lots are no longer available due to development on those sites.

The private parking lot, east of Lee Avenue and south of Main Street, has been leased annually for parking for Municipal Court and Municipal Counselor's Office employees. When the new Municipal Court Building is complete, there will be limited off-street parking near the courthouse for court patrons. Court patrons will have to either park at a meter or use one of the parking garages within walking distance from the courthouse. Significant public events in the area throughout the year further limit available parking for our court patrons. In addition, the parking lot lease for employee parking could be terminated at any time, depending on the needs of the private owner who is a property developer. The cancellation of the parking lease would result in Municipal Court and Municipal Counselor's Office employees having to park in the Sheridan/Walker Parking Garage. The annual financial impact of moving employees to the Sheridan/Walker Parking Garage is approximately $20,000.

Possible Relocation of the County Jail

The future plans for the Oklahoma County Jail continue to be a concern for Municipal Court. The City prisoners are housed in the Oklahoma County Jail and they are regularly transported to and from Municipal Court by means of walking across the street in the custody of the City Marshals. If a new jail is built on a site away from Municipal Court, the Marshals will be required to transport prisoners from the County Jail to Municipal Court using vehicles. It may be possible to purchase additional audio-video equipment to conduct court events at the jail via secure video link in an effort to reduce the frequency of vehicle transfers. However, 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. The City may need to consider the purchase of sufficient sized vehicles that are appropriate for prisoner transport.

Properly Maintaining New Court Facility

The new Court facility will be a 65,000 square foot, three-story building in comparison to the current 42,863 square feet. The additional 22,137 square feet of space will require supplemental janitorial personnel and industrial cleaning equipment to properly clean and maintain the new Court facility. Currently, the Municipal Court shares maintenance expenses with the Police Department; however, the Municipal Court will be fully responsible for all utilities and maintenance costs in the new building. The annual financial impact has been estimated to be $196,000.

PARKS AND RECREATION

Financial and Budget Challenges

As Oklahoma City continues to add new and exciting elements of recreational opportunities for citizens, ongoing maintenance dollars for those new elements have not been added proportionately to the operating budget. For example, each mile of paved trail requires annual maintenance of $3,000 for striping, crack-filling, etc. That would equate to $240,000 per year for 80 miles of trails and is not currently in the operating budget. Additionally, the cost to completely renovate a single trail mile is $211,200. While most City trails are relatively new, they will begin to require more extensive maintenance in the next five years. Capital projects such as MAPS, Project 180, General Obligation Bond programs and the Oklahoma City Boulevard have resulted in new operational and capital repair funding needs not currently budgeted or planned for as projects are contemplated and completed.

Continued reductions to sales tax revenue have an immediate impact to the operating budget for the Department. New elements without appropriate budget allocations exacerbate financial pressures to continually provide outstanding services to Oklahoma City residents. In the 2016 Citizen Survey, citizens established their opportunities for improvement in the Parks Department as:

1- Walking and biking trails in the City
2- Quality of City parks near neighborhoods
3- City recreation centers
4- Maintenance of City parks

Maintenance of City parks had the highest increase in citizen satisfaction in the 2016 Citizen Survey of 11%, to a 71% satisfaction rating. To continue to receive this level of citizen satisfaction, we are going to have to increase our operating budget in coordination with the completion of capital projects.

Infrastructure

We are aware the benefits of recreation boost quality of life, health and wellness, social services, economic impact, community building, conservation, and social equity. Recreation, Health and Wellness helps connect residents with opportunities in athletic programs, teen activities, active adult activities, and much more. These services provide a foundation for the physical, social, economic, and environmental viability and well-being of the community.

The Civic Center Music Hall is entering its 17th year since the facility was partially renovated through the original MAPS funding and is experiencing deterioration and failure of systems. A Utilization Study evaluated the spaces not renovated in the original MAPS and recommended a phased approach to renovations that would provide a minimal impact on patrons and resident companies. The five year forecast emphasizes the importance of necessary repairs and replacement of aging equipment required to maintain the 77 year old facility. The study recommended improvements over five phases at an estimated cost of $53 million, adjusted with annual construction increases, and is not currently funded. Using a 3% inflation/construction escalation for those recommended improvements, today that cost would be estimated at $56 million. To maintain a first class performing arts center, funds will need to be identified to complete recommended repairs and improvements. These renovations will add new opportunities for programming by upgrading underutilized spaces and improve the ability to create additional revenue and draw new performance opportunities.

The Freede Little Theater inside the Civic Center Music Hall.

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

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

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

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

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

The core park maintenance services are substantially provided by front line, entry level full-time, part-time and seasonal staff where there is a need to improve the quality of recruits and efficiencies to guarantee the future success and sustainability of the park system. A long-term staffing plan will be needed as well as a plan for training and education to ensure staff members are skilled and exhibit the core competencies expected of them as recreation, health and wellness professionals.

PERSONNEL

Healthcare 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 IRS 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 OHC are directly related to an applicant's/employee's job. The City has leased space to house the OHC from St. Anthony Hospital for over 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 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 four (4) 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.

Retiree Health Benefits - OPEB

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 $440 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 8.9%. Unfunded liabilities in these areas can negatively affect bond ratings and investor opinions about the City, which could ultimately lead to higher borrowing costs.

The General Fund retiree health insurance subsidy directed to the Other Post-Employment Benefits Trust, competes with other General Fund funding demands. To help address the large OPEB liability, City Council adopted two changes that went into effect on January 1, 2017 that will reduce the liability $90 million in the next 10 years and will eventually eliminate the post-employment benefit obligation in its entirety.

- *Increased Eligibility Requirements for Early Retirees.* For those employees who take early retirement, subsidized retiree health insurance is only available to those employees who have worked at least 15 years with the City and have reached age 60 which is an increase from previous requirement of 5 years of service and age 55.

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

Additional plan changes would further reduce the immediate liability.

PLANNING

Implementation of the Comprehensive Plan

The citywide Comprehensive Plan (plan**okc**) includes multiple recommendations that will require additional funding and resources to further develop and grow our economy and tax base; fully utilize existing properties and infrastructure; maximize our disaster response capacity; advance environmental sustainability; improve connectivity and compatibility of new development; and prevent deterioration of commercial districts. Implementation of these goals will be pursued in the coming years through work in the following divisions:

- *Current Planning.* Significant modifications to development codes, subdivision regulations and the development review process will need to be made as identified through plan**okc**. Although some code revisions and development processes can be developed by City staff, other revisions will require consultant contracts totaling approximately $1 million over four years. Phase 1 of this process is will begin in December with the finalization of an $80,000 consultant contract for code diagnosis and scoping of the remainder of the process. The remaining amount (approximately $900,000) will need to be identified.

- *Transportation Planning.* The Planning and Public Works Departments are in the process of assessing new transportation planning needs that resulted from the adoption of development impact fees for streets. Depending on the outcome of ongoing discussions and a proposed major citywide transportation study, Planning will likely need one or two additional FTEs for two purposes: 1) to model and evaluate changes in our transportation network that may be necessary for new development on a case by case basis, and 2) to develop and keep a master transportation plan up to date. Planning may also require funding for traffic/transportations plans or studies that are more focused than the citywide plan.

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

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

Neighborhood and Commercial Revitalization

Since 2003, federal formula grant funding allocated to the City through the Department of Housing and Urban Development (HUD) has continued to decline. Funding through the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME) has been reduced by 33% and 45%, respectively. This funding supports numerous community development and neighborhood revitalization projects including housing rehabilitation, down payment assistance, affordable housing, infrastructure, and homeless programs, as outlined below.

- *Neighborhood and Commercial Revitalization Initiatives.* The Department's Commercial District Revitalization Program (CDRP) focuses on revitalizing corridors and commercial areas by coordinating infrastructure and community development investment. The CDRP program is currently working with districts like Paseo, Plaza, Western Avenue, MLK Avenue, Uptown/23rd, I-240, Stockyards, Capitol Hill, SW 29th and Windsor, and is experiencing increased demands from the community for services, inclusive of organizational capacity funding and technical assistance. CDRP expenditures have exceeded the budgeted amount, ranging between 20% to 38% increase over the past four years, and have been supplemented through contingency funds. Local funding resources of $550,000 would allow the program to address the growing and evolving needs of the neighborhood and commercial initiatives in an effort to support the Council Priority to promote thriving neighborhoods.

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

- *Community Development Programs.* The reduction in federal funding is expected to continue, leaving the Planning Department with an additional shortage of funds to cover personnel expenses. If we are to continue delivering grant funded programs to the community, position salaries will need to be transitioned to the General Fund starting in FY18. The impact to staff positions is particularly acute. In the past, we have been able to utilize special but term-limited programs to cover the funding gap between staffing needs and available sources. The most recent examples are the now defunct Neighborhood Stabilization Program (NSP) and the Disaster Recovery program (CDBG-DR) which started in FY15 and will run for about two more years. The transition between these special programs in addition to declining federal funding has resulted in gaps that need to be addressed immediately, as well as long term.

  For the past two and a half years, CDBG-DR administrative funding has been used to implement the CDBG-DR program activities which have allowed the transition of some of the salaries for grant administrative staff from HOME and CDBG to the CDBG-DR grant program. This transition of salaries has enabled the Planning Department to maintain staffing levels necessary to successfully implement grant funded housing, neighborhood revitalization, and economic development programs as federal grant funding has diminished. The CDBG-DR funded activities are limited in term and will be exhausted within the next two years. The grant administration staff salaries that were migrated to the CDBG-DR grants will need to transition back to the relevant HOME and CDBG grant programs to continue to implement the programs in compliance with all financial and programmatic federal requirements.

  During the 2016-17 federal program year, the CDBG-DR is shouldering the administrative salaries of staff totaling $260,133. The remaining CDBG-DR administrative funding available to cover salaries, audit and other administrative costs for the balance of the CDBG-DR program totals $275,325. At the current expenditure rate, this funding will be fully exhausted in FY18. Understanding this eventuality, the Planning Department has reduced the number of staff positions, particularly on the HOME program, to accommodate some of the pending funding shortfall since unused HOME administrative funding can carry over to the next federal program year. The rolling of unused administrative funding is not possible with CDBG. Therefore, the department has accumulated about $116,000 of rollover HOME administrative funding to combine with the $185,974 FY17 HOME administrative funding ($301,974 total) to cover administrative expenses during FY17. The reduced staff salaries currently funded with HOME total $202,778 (without including any grant administrative staff that were transitioned to CDBG-DR). This results in FY18 roll over of approximately $99,596 to cover salaries when the CDBG-DR funding is exhausted during the balance of FY18.

Social Services Programs

Our available records on the City's Social Services grant fund date back to FY04. These general fund dollars are allocated to help the neediest in our community. The dollar amount of $121,000 has never changed since the original allocation despite the increase in population and inflation. This amount is currently distributed among 12 service providers to aid a variety of programs. The 12 service providers are: Be the Change, Community Health Centers, Inc., The Homeless Alliance, Inc., YWCA of Oklahoma City, Inc., Heartline, Inc., Positive Tomorrows, Inc., OKC Metro Alliance, Inc., Urban League of Greater OKC, Inc., Neighborhood Services Organization, Inc., Upward Transitions, Inc., City Rescue Mission, Inc., and Legal Aid Services of Oklahoma, Inc. The programs provided include: homeless prevention initiatives; case management services for veterans, youth and the chronically homeless; locates housing for persons with AIDS; and provides assistance to healthcare providers who treat the homeless. Federal goals for communities include a target to house all homeless veterans by the end of 2015 and all chronically homeless by the end of 2017. The City continues to make progress towards these initiatives. Increased social services funding to $350,000 annually could help our efforts and also boost the City's Federal Continuum of Care (CoC) application scores and thereby help prevent a reduction in CoC grant funding which supports our City's homeless and our most needy citizens.

Funding for Arts and Cultural Affairs

In 2012, the Office of Arts & Cultural Affairs was established to administer the 1% for Arts program, staff the 15-member Arts Commission, and build support for arts and culture throughout Oklahoma City. With current staffing levels, the Office of Arts and Cultural Affairs program cannot operate beyond administering the 1% for Arts ordinance and staffing the Arts Commission. The Office is staffed by one full time Program Planner, who serves as the Arts Liaison to City departments and members of the community. Administrative Coordinator support is shared with the Office of Sustainability work section and the Planning and Redevelopment Division. A full time Administrative Coordinator position, estimated at $58,779, will help offset administrative workload assumed by the Arts Liaison, allowing the Office of Arts & Cultural Affairs to better achieve its expectations and commitments, which include the following:

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

- *Technical Assistance and Training.* The Arts Liaison provides technical assistance to neighborhoods, schools, districts, and artists. Requests for technical assistance have increased over the past four years and the Office is currently providing support to 22 entities. The Office of Arts and Cultural Affairs conducts application training for artists and annual Arts commissioner training.

- *Master Plans.* The Arts Liaison is currently coordinating the development of three public art master plans which will require staff resources for implementation: Fairgrounds Public Art Master Plan; MAPS 3 Trails Public Art Master Plan; and MAPS3 Park Public Art Master Plan. The comprehensive art master plan, AMP UP OKC, was adopted December 2015 and will require significant staff resources for implementation.

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

POLICE

Public Safety Fleet *(Highlighted Issue – See page 96 for additional information)*

Public Safety Service Level Improvements *(Highlighted Issue – See page 96 for additional information)*

Facilities

The Oklahoma City Police Department (OCPD) has several facility needs that will need to be addressed over the next five years.

- *Hefner Station* - The Hefner Briefing station is one of the oldest police briefing stations in the City. The building needs renovations for ADA standards and to provide office space for Police Community Relations, Intelligence Led Policing, IMPACT, supervisory staff and increased personnel. Estimated construction cost is $1.9 million.

- *Springlake Station* - The Springlake Briefing station is also one of the oldest police briefing stations in the City. The building needs renovations for ADA standards and to provide office space for Police Community Relations, Intelligence Led Policing, IMPACT, supervisory staff and increased personnel. Estimated construction cost is $1.9 million.

- *Will Rogers Station Equipment Storage* – OCPD has several pieces of specialty equipment including the command post, tact team truck and bomb truck that need to be stored in a sheltered environment. Construction of a storage facility at Will Rogers Station is estimated at $500,000.

- *Air Support Relocation* – The current Helicopter Unit is located on property that is contiguous to property owned by a local developer who has plans to build retail and multi-housing facilities on the property. The Southwest Briefing Station was designed to accommodate the Helicopter Unit knowing that relocation to the Southwest Station will be necessary in the future. Estimated construction cost is at $3.6 million.

PUBLIC INFORMATION AND MARKETING

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

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

In the 2016 Citizen Survey, residents rated the quality of customer service from city employees – 56% down from 57%; and the effectiveness of city communications with the public 46%, down from 49%. Residents' ratings for the accuracy of information given (67%) and how well their issue was handled (62%) was also down. Improving customer service involves more than just one solution. Transparency is essential for improving customer service and the effective use of technology is critical to improving service delivery. Technology is not only imperative to improved and optimized customer service processes, it also provides a direct link to our customers giving them better access to services and allowing them to communicate with us about our programs and the different ways we serve them.

Social media and new communication platforms will continue to effectively deliver information about services, especially to specific populations or demographics. Contact centers will also continue to be an important channel to serve citizens. While digital contact channels (i.e., Facebook, NextDoor, Twitter, etc.) are gaining preference with some demographics, many people still prefer face-to-face or phone contact.

The Action Center provides integration between channels through knowledge bases used by the website, contact center representatives and other customer touch points. Enterprise customer relationship management (CRM) tools help manage the customer experience across the entire organization, eliminate redundancy and improve service delivery.

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

PUBLIC TRANSPORTATION AND PARKING

Bus Stop Improvements
With ridership for the EMBARK bus system growing, more residents and visitors are using the City's bus stops. Although many new bus shelters and accessibility improvements to bus stops have been made in the last year, bus stop improvements have been minimal in the past thereby creating a backlog of bus stop locations in need of covered bus shelters and/or accessibility improvements. With 25% of citizens indicating covered shelters is the most important consideration in deciding whether to use public transportation, continued interdepartmental collaboration and local funding is needed to provide the bus shelters and accessibility improvements required to develop a transportation system that works for all citizens.

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

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

PUBLIC WORKS

Funding of Street Improvements *(Highlighted Issue – See page 91 for additional information)*

Increased Number of Capital Improvement and Construction Projects
The number of Capital Improvement Program projects not funded through the G.O. Bond program continues to increase. Projects for the Zoo, Airports, Fairgrounds, Parks, and COTPA have all been managed by Public Works department staff during the current fiscal year. These projects include, renovation of the 100 N Walker 3rd floor Accounting Services Division, renovations at the Bricktown Ballpark including left field seating and 4 tops seating, renovation and improvements at Kerr/Couch Park and the completion of the Oklahoma City Zoo Vet Hospital.

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

Additional inspection staff will be required in Field Services to handle increased workloads associated with the increased number of new construction projects. A minimum of two (2) additional Construction Inspector positions will be needed to meet the increased workload.

NEW **Drainage Infrastructure**

There are two primary funding sources for drainage infrastructure improvements in Oklahoma City which include G.O. Bond Funds and the Storm Water Drainage Utility. The 2007 G.O. Bond proprosition provided $32.85 Million for 10 listed projects. Historically a significant portion of the Storm Water Drainage funds have been devoted to the Oklahoma River, channel cleaning and mowing of detention ponds.

In 2015 the City experienced several significant rainfall events that exceeded the 100 year flood levels. These storms led to a FEMA Disaster Declaration for Oklahoma City and numerous citizen complaints. Public Works staff identified a significant number of drainage improvements and projects that are necessary, however, funding is not available to make these improvements.

In order to prevent damage to homes and businesses, it is imperitive that a funding source be identified to addresss the drainage concerns that have been identified across the City.

UTILITIES

Long Term Water Capital ***(****Highlighted Issue – See page 93 for additional information)*

NEW **Tinker Air Force Base Municipalization**

In response to a solicitation for municipalization of the Tinker Air Force Base water system, OCWUT proposed operation, maintenance, and capital plans for the facilities. It is anticipated that over the next year, OCWUT will be addressing the federal government requests for contracting out its water system to OCWUT.

NEW **Non-ratepayer Land Development**

OCWUT directed analysis of options to use available properties at lake reservations to generate more non-ratepayer revenue to cover recreational facilities' maintenance and fund construction of new recreational improvements. OCWUT approved a study of property along Northwest Expressway for mixed-use commercial development. OCWUT will be selecting a developer proposal for the Northwest Expressway development which will enable receipt of added non-ratepayer funds in support of that program.

NEW **Recycled Water**

In August 2016, OCWUT authorized staff to enter into negotiations with a local energy company to evaluate the potential use of up to 25 million gallons of recycled water from the Deer Creek and Chisholm Creek Wastewater Treatment Plants for a period of up to 3 years. Should financial, regulatory, and engineering evaluations reveal it would be feasible for this recycled water to be used to support oil and gas exploration, then an agreement will be finalized and presented to the Trust and the City for consideration. This project could generate significant additional net revenues to help OCWUT offset costs of capital programs.

NEW **Biosolids Land Application**

In the summer of 2016, Council asked the Utilities Department to evaluate current biosolids land application practices to determine if changes could be made to better address Council desires. OCWUT has directed CDM Smith to review the biosolids land application program and present findings and alternatives for consideration. It is anticipated that alternatives would necessitate increases in wastewater service charges above those currently being formulated by the cost-of-service consultant. As this information becomes available, staff will present findings and recommendations to the Trust and Council for consideration.

NEW **Public Education for Solid Waste Route Changes and Recycling Initiative**

As Solid Waste implements more efficient routes, 96-gallon recycling service, and pilot rural drop-off recycling stations, staff will develop and implement a new public education program targeted at set-out day changes and recycling.

- *Route Changes.* Stearns, Conrad, and Schmidt Consulting Engineering (SCS Engineers) was retained to complete a route optimization evaluation of the Solid Waste collection routes. Route optimization is necessary periodically to achieve efficiencies with work assignments and expanded areas due to customer growth. It is expected that the implementation plan for improved collection efficiency will begin in February 2018 and that more customers will experience day set-out changes than in the past.

- *Recycling Initiative*. On August 2, 2016, Oklahoma City Environmental Assistance Trust (OCEAT) approved a resolution to purchase 96-gallon recycling carts for the new recycling program for urban customers. Additionally, the resolution approved for the initiation of a one-year pilot rural recycling program, which includes development of four drop-off recycling stations in rural areas. An updated customer survey to determine the level of support for recycling and the acceptance of the City's provision of larger 96-gallon carts was conducted in November 2016. This survey assisted us in formulating customer educational initiatives to increase acceptance of the program changes and recycling participation by customers throughout the city.

FIVE-YEAR FORECAST

FY 2018-2022

SECTION 6

GENERAL FUND REVENUES

TRENDS AND FORECASTS

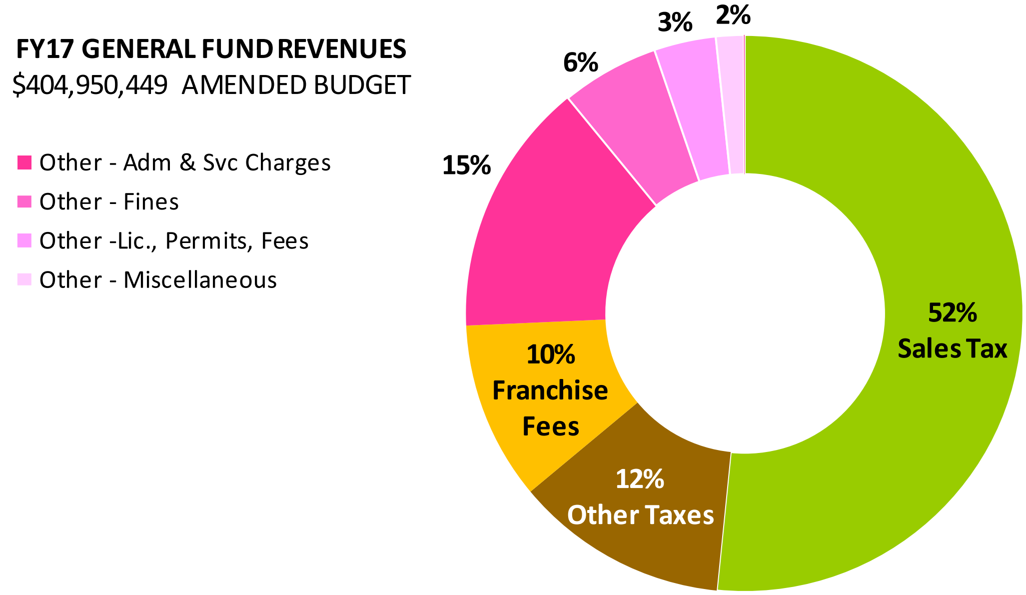





Continued stability of the General Fund is significantly contingent upon growth in tax revenues, Sales Tax, in particular.

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.



Due to a decline in revenue in FY17 mid-year budget cuts were taken. The revenue decline was largely attributed to a contracting energy sector, inventory adjustment, and declining sales tax collections due to an increase in online purchases where no sales tax is remitted. The graph above reflects the amended budget, after a $9,246,834 reduction in revenue. With the City's current revenue mix, continued stability of the General Fund is contingent upon growth in tax revenues, and sales tax, in particular. Because over half of the General Fund budget comes from sales tax, it is the key revenue source. For that reason, a significant part of this section will focus on sales tax revenue.

SALES TAX

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

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

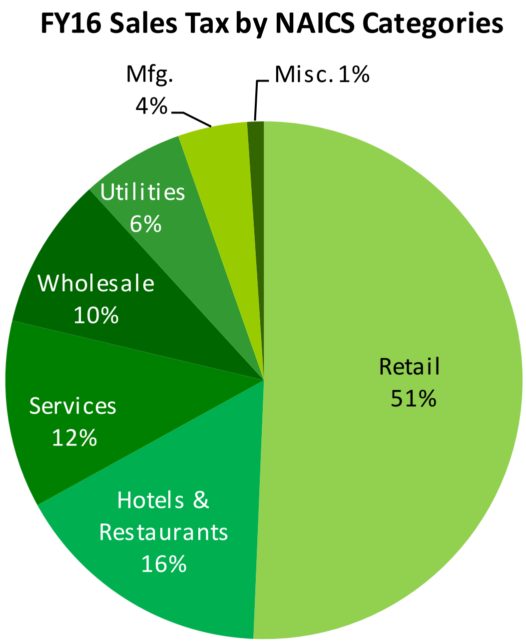
The city's 3.875% sales tax levy is divided between the various funds as follows:

- **2% goes to the General Fund.** Sales Tax is the largest single revenue source for the General Fund.
- **1% goes to the MAPS 3 Sales Tax Fund.** This temporary tax is in effect through December 31, 2017, and is slated to fund capital improvements designed to boost economic development and improve the quality of life in Oklahoma City.
- **0.75% goes to the Public Safety Sales Tax Fund.** This tax is split evenly between Police and Fire and is a permanent dedicated sales tax.
- **0.125% goes to the Zoo Sales Tax Fund.** This is also a dedicated sales tax and can only be used for capital improvements and operations at the Zoo.

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

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

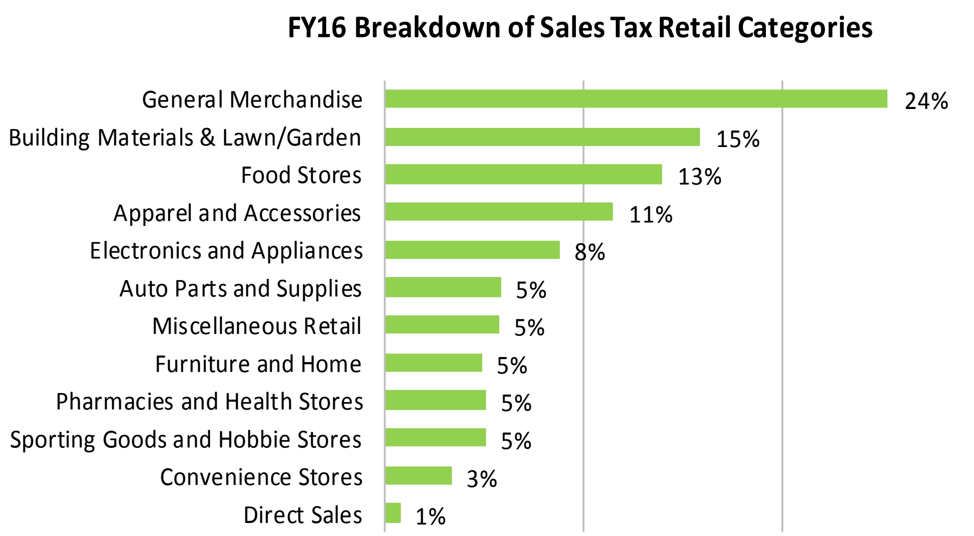
The chart below illustrates the most significant sectors of Oklahoma City's sales tax base for FY16. As shown, the retail sector represents more than half of all taxable sales.



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

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

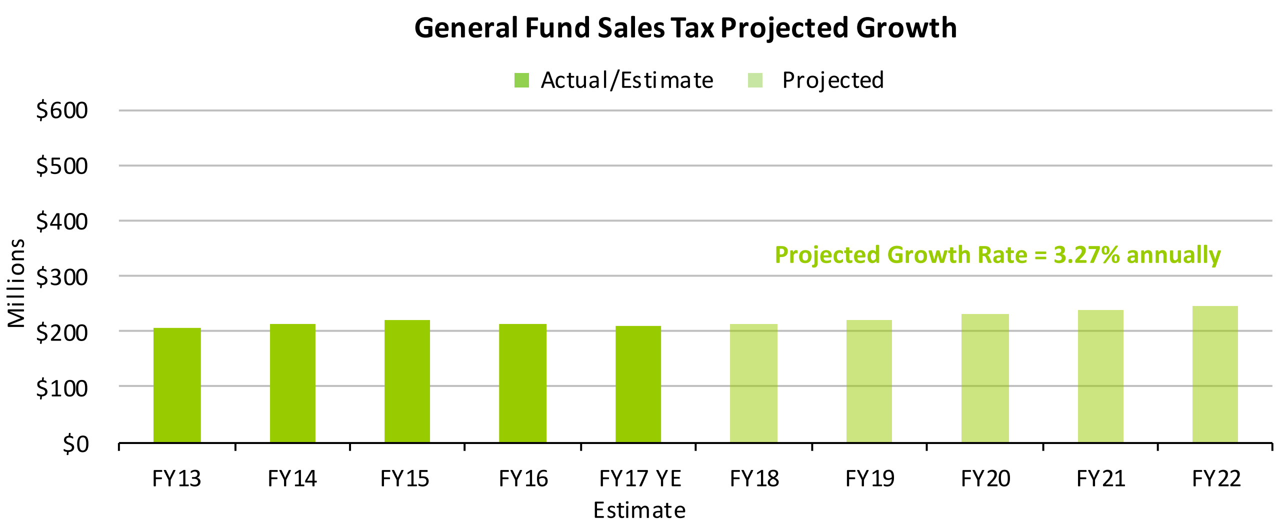
The mix of retail activity shifts gradually over time due to changes in retailing (such as the growth of the superstore), consumer tastes (such as eating out more often), and tax law changes (such as the change from taxing cigarettes through Sales Tax to excise taxes in 2004). Whatever the reasons for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



Sales Tax Revenue Forecast

The uncertainty in the economy makes projecting sales tax a challenging task. How will the national economy perform, how will the Oklahoma economy be impacted by the energy sector and the price of oil and natural gas, and how will a continued shift in consumer purchasing from local retail stores to online purchases affect Sales Tax collections? These questions make forecasting next year's sales tax a real challenge. For Oklahomans, extremely low natural gas and oil prices are a concern as those prices result in lower exploration and production activity and decreased employment in the mining sector. Oil and gas have proven to have a bigger impact on our local economy than the underlying strength that has been building from other industries such as Aerospace. In the last five years, Oklahoma City has seen the 20-year average growth rate decline from an average of 3.96% growth per year to 3.46% growth per year. The trend continues to be analyzed since population grew 7.6% and labor force grew 5.6% over the same five-year period while Oklahoma City maintained one of the lowest unemployment rates in the nation at 4% to 5% during the time period.

Part of the Economic Forecast developed by Dr. Russell Evans, Economist at Oklahoma City University, was an estimate of taxable retail sales. That estimate was used to inform the projection for sales tax growth for the remainder of FY17 and for FY18. Based on those forecasts and our long-term average, sales tax growth for FY17 is expected to decline 2.63% from FY16. In FY18, Sales Tax growth is projected to grow at 2.50% as we expect the energy sector to improve as rig counts continue to go up and oil and natural gas prices increase. In the last four years of the forecast, Sales Tax is projected to grow at the 20-year average of 3.46%. Overall, sales tax, which is 53% of all General Fund revenues, is projected to grow at 3.27% annually over the forecast period. This projection results in an additional $36.5 million from sales tax collections over the forecast period, FY18 – FY22.



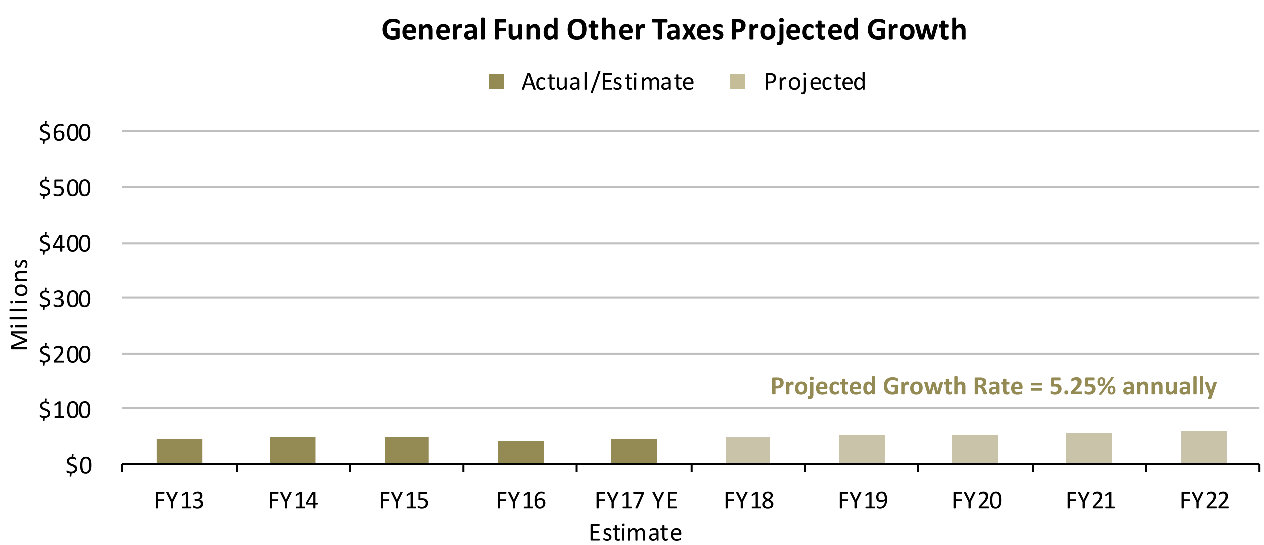
OTHER TAXES

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

Other Taxes Forecast

Use tax has historically been very volatile, with significant swings from negative growth to double-digit positive growth. Use Tax has grown at an average of over 7% per year over the last ten years with a range of growth from 20% in FY12 to a decline of 11.5% in FY13. In FY16, use tax declined 20.8% due to a $6.6 million refund to a taxpayer who remitted taxes to Oklahoma City in error for several years; with the refund excluded use tax still declined 3.3%. In FY18, use tax is expected to grow at 4.0% and then return to the long-term average of 7% growth remainder of the five-year forecast.

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." The excise tax on tobacco is expected to remain flat during the forecast period. The alcohol tax is forecasted to grow at 1.4% in FY18 and then return to the 10-year average of 4.0% the remainder of the forecast period. Overall, other taxes, which make up 12% of General Fund revenue, are projected to grow an average of 5.25% over the forecast period.



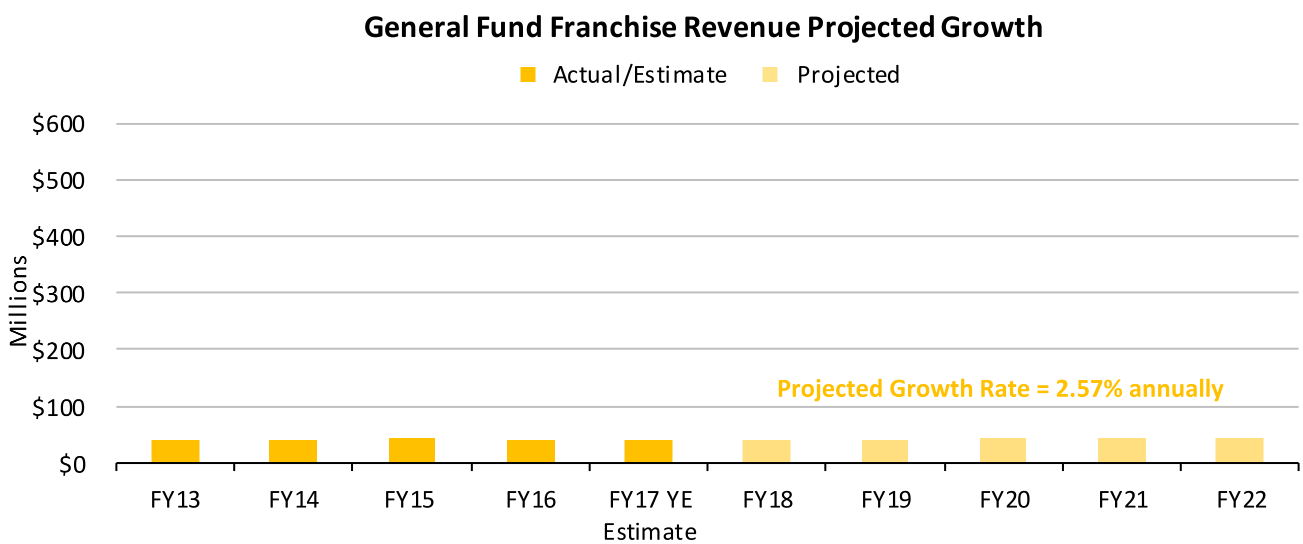
FRANCHISE REVENUES

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

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

Franchise Revenue Forecast

Franchise revenue is expected to finish FY17 1.54% below FY16 due to mild weather and low natural gas prices. In FY18, growth of 2.41% is projected as natural gas prices rise. For the remaining four years of the forecast, Franchise revenue as a category, is projected to average growth of 2.57% per year based on long-term averages.



OTHER GENERAL FUND REVENUES

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

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

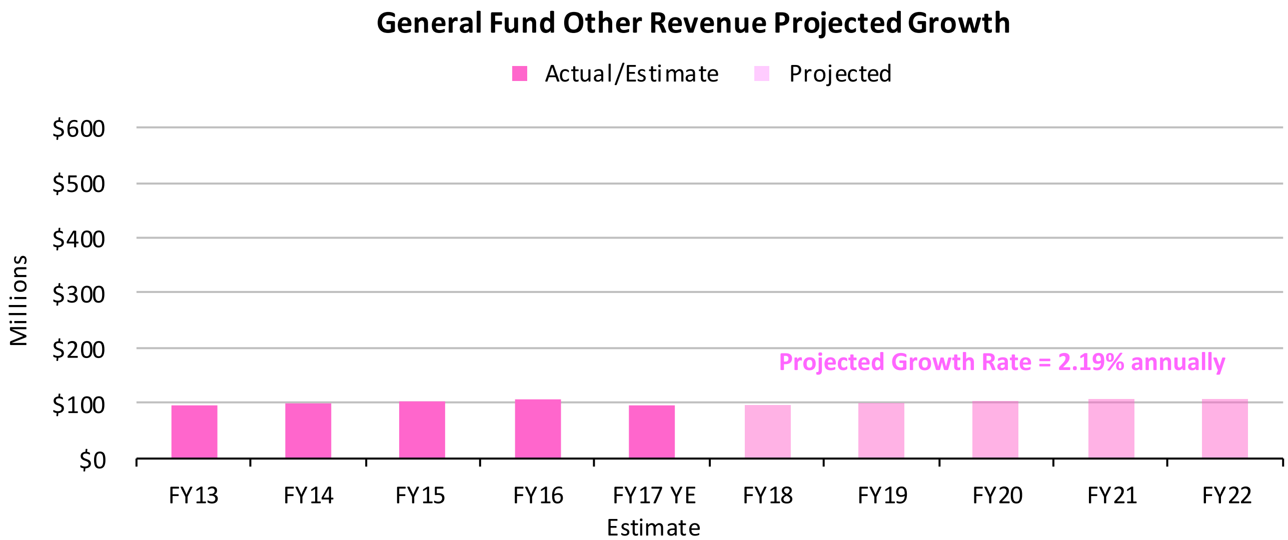
Services & Administrative Charges - Animal shelter, engineering, planning, recreation, and police fees are some of the sources included in this category, in addition to payments from the Public Safety Sales Tax Fund as reimbursements for police and fire wage adjustments. Parking meter fees, as well as inter-agency charges for services such as accounting and legal, are included. These charges contribute 15% of the General Fund revenue budget.

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

Other Revenues and Intrafund Transfers - This category includes a variety of miscellaneous sources such as interest, revenues from the sale of city property, rental income, and several small transfers from various city funds. In total, these revenue sources account for only 2% of the General Fund revenue budget.

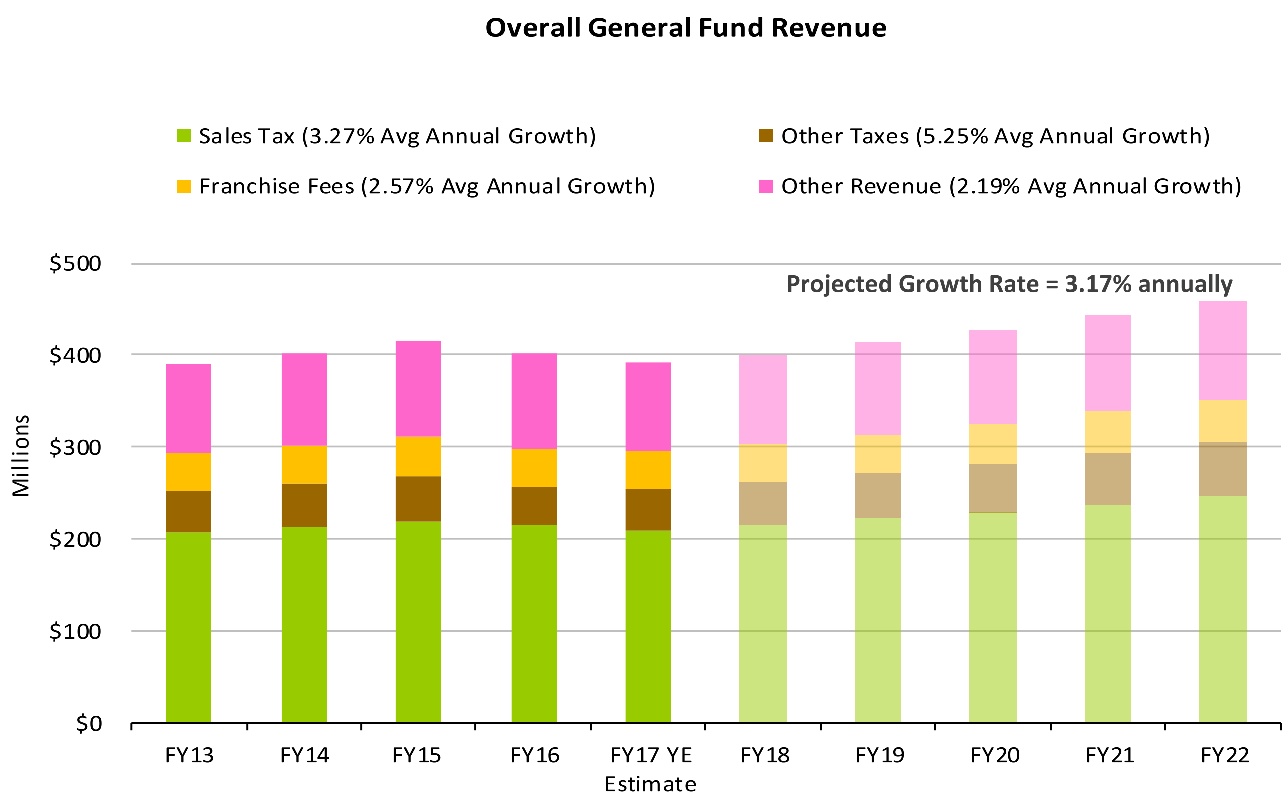
Other General Fund Revenues Forecast

Overall, this group of other revenues makes up 26% of General Fund revenue and is expected to grow 2.19% 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 3.30% 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 $392.4 million in FY17 to $461.5 million in FY22.



FIVE-YEAR
FORECAST
FY 2018-2022

SECTION 7

GENERAL FUND EXPENDITURES

TRENDS AND FORECASTS

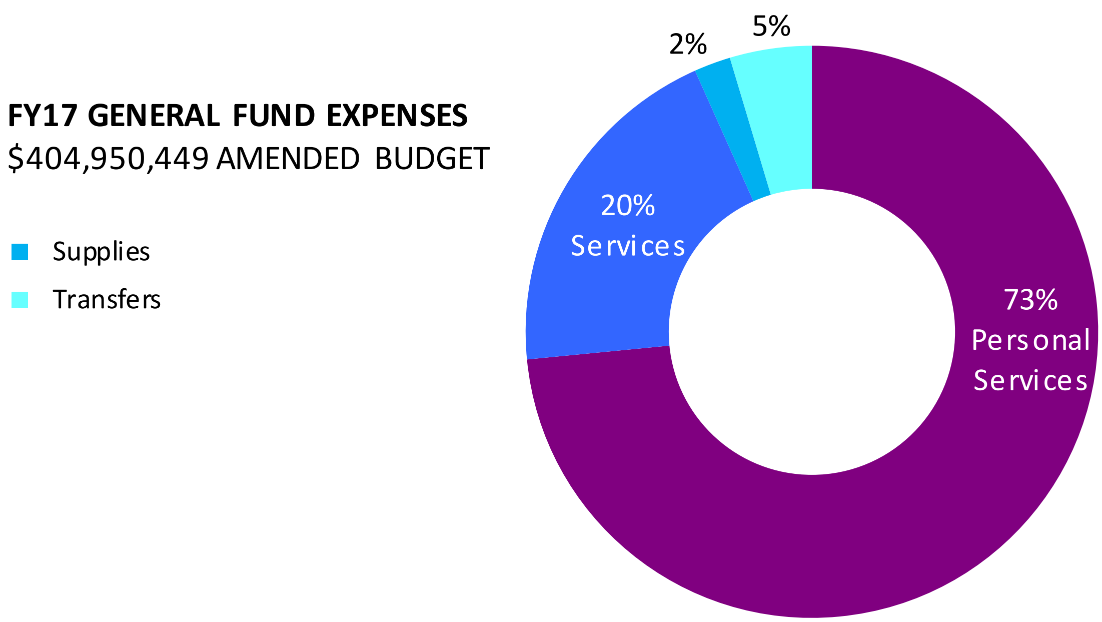
General operating costs are anticipated to continue to grow at a rate higher than inflation due primarily to salary and benefit growth.

EXPENDITURE OVERVIEW

City expenditures encompass an enormous variety of goods and services for items ranging from employee salaries to sophisticated computer programs to dog food. While it would be impossible to forecast every possible area of expenditure growth over the next five years, this report attempts to project the most likely growth patterns in expenses. It is anticipated that general operating costs will continue to grow at a rate higher than inflation due, primarily, to salary and benefit growth. However, several enhancements to current services or new services were included in the expenditures projections. These additions are summarized in the table below and are identified in the sections on the following pages by italics. Conservative financial assumptions are made to maintain the financial stability of the City when considering the implementation of these, or any, new or enhanced City programs.

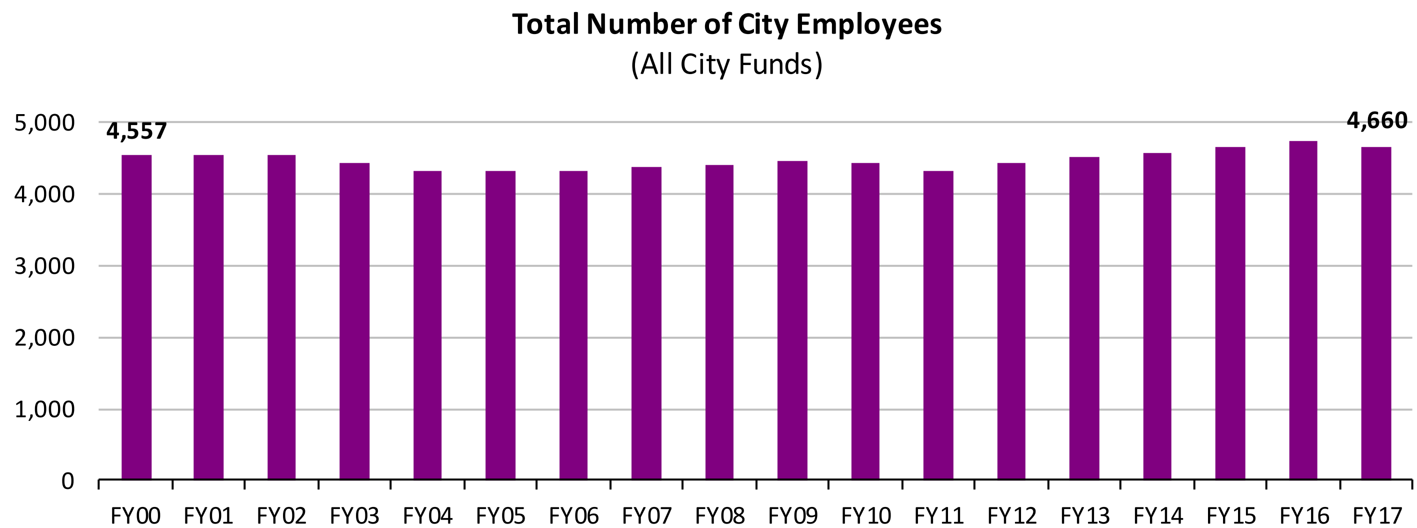
	FY18	FY19	FY20	FY21	FY22
Fire Staffing for New Station	$0	$916,419	$1,906,152	$1,982,398	$2,061,693
Increased Police Staffing	$0	$1,489,580	$3,098,326	$4,833,389	$6,702,300
Radio System Annual Replacement	$975,000	$975,000	$975,000	$975,000	$975,000
MAPS 3 Park (Net Cost)	$735,000	$2,264,400	$2,162,137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

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.



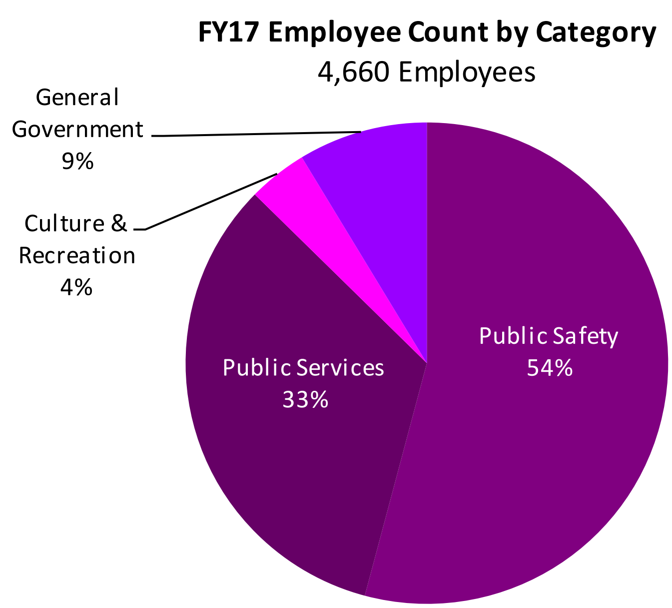
PERSONAL SERVICES

At 73% of the FY17 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 FY17 the City reduced the number of positions by 83 due to declining revenue; 39 of the reductions were made as part of a mid-year FY17 budget reduction. The total number of budgeted positions for FY17 was 4,660.



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

These totals under-represent the full level of effort in these areas due to two primary factors; the first is that these figures only count city employees and do not include employees of the city's trusts. The Oklahoma City Zoological Trust has about 159 full-time employees and the Oklahoma City Public Property Authority has about 73 full-time employees working at the city's golf courses. These employees would count in the culture and recreation category.



There are also 219 full-time employees in the Central Oklahoma Transit and Parking Authority who would fall in the public services category. The second factor is the many city contractors providing city services, such as the employees of SMG who operate the Chesapeake Energy Arena and Cox Center, the employees of Waste Management, Inc. who provide much of the city's trash service, and the employees of the service provider who operate the city's wastewater treatment plants. Contract employees are not counted in any of these totals.

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

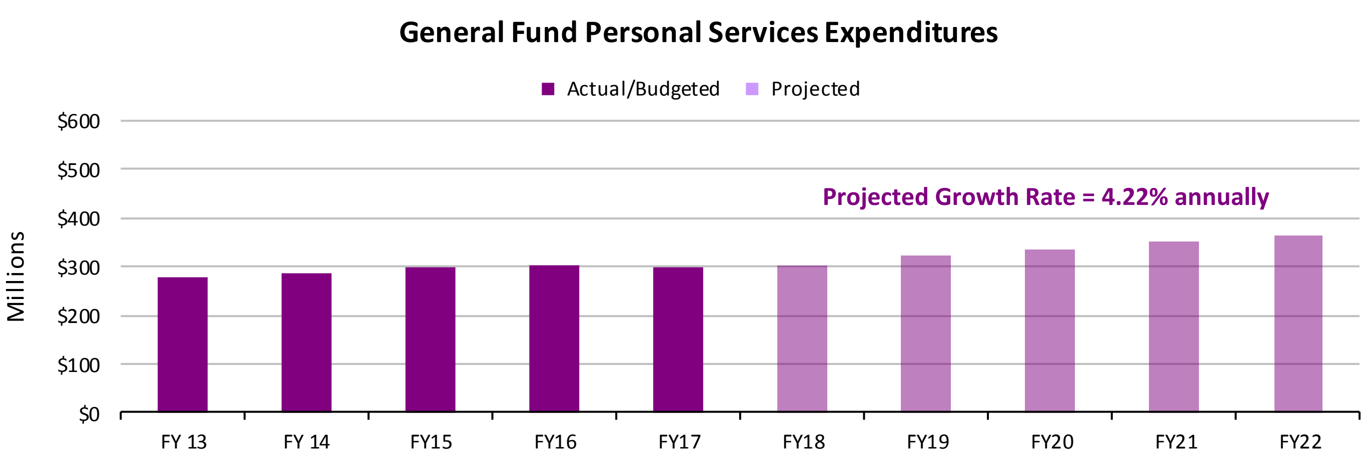
Most city employees are covered by a collective bargaining agreement. These agreements are negotiated every year and spell out the changes to a group's pay plan, benefits, and rules for handling pay-related matters, such as overtime. In the FY17 Budget, the American Federation of State, County, and Municipal Employees (AFSCME) represents 1,446 general positions. The Fraternal Order of Police (FOP) represents the 1,153 uniformed police positions. The International Association of Fire Fighters (IAFF) represents the 975 uniformed fire positions. The remaining 1,086 positions are unrepresented management and executive positions that receive pay plan changes through city management recommendation and Council approval.

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

Personal Services Projections

Looking back at how employee costs for the City (excluding Trusts) have grown in recent years helps inform the projections for the future. From FY05 through FY09 the cost per budgeted full-time 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 budgeted full-time position decreased by 0.2% per year as the City was cutting positions, holding positions vacant, and did not give pay plan increases. In FY12 through FY16 positions were added and pay plans increased, resulting in the cost per budgeted full-time employee growing an average of 4.0% per year. In FY18 the rate of growth is projected at 1.6% due to revenue limitations on growth. In the subsequent years additional positions and position related expenses such as insurance increase the rate of growth. Over the five-year forecast period, the average growth is projected to be 4.22% for personal services which is a culmination of additional positions and position related expenses such as wages and insurance.

Budget for 21 frozen fire fighter positions and 48 frozen police officer positions is added in FY19. Staffing for one new fire station is added to the projections in FY19 for one-half of the year with the full cost realized in FY20. In addition, the desire for additional police officers is addressed by adding 20 positions per year in FY19 through FY22. With these changes factored in, personal services are projected to grow an average of 4.22% per year.



OTHER SERVICES

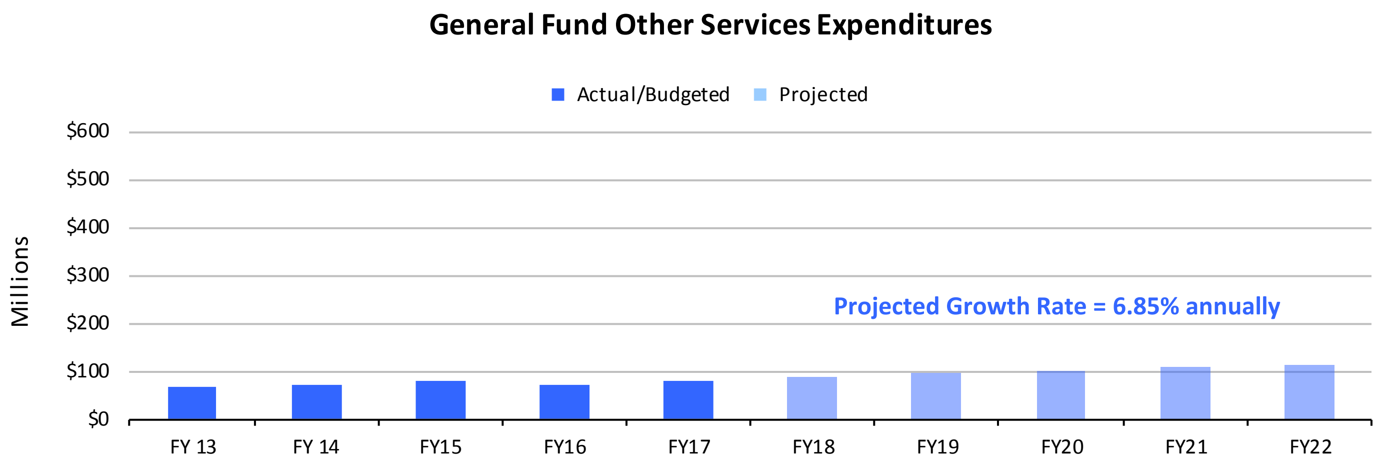
Other services include expenditures for service contracts, utilities, printing, vehicle maintenance and professional services. The FY17 budget for other services totals $80.4 million or 20% of all General Fund expenditures. Two of the largest expenses in the Other Services category include payments to the Central Oklahoma Transportation and Parking Authority (COTPA) for operations which is projected to account for 19% of the FY18 Other Services budget and chargebacks which are projected to account for 39% of the Other Services budget. Chargebacks are charges between internal city agencies for services such as vehicle maintenance, printing services, computer support, workers compensation and property and liability insurance.

Other Services Expenditure Projections

Most of the costs for other services during the forecast period are expected to grow at an average of 2.0% per year, the average annual growth rate over the last five years. There are a few exceptions to the growth rate in this category. First is the operating support provided to COTPA for transportation services that is projected to rise at 10.0% per year based on historical funding and projected incremental changes to personnel and other operating costs. In addition to the incremental growth projected in support for COTPA, *budget of $1.5 million per year has been added for bus replacement beginning in FY19. For streetcar operations, $0.8 million of budget will be needed in FY18 for startup costs and testing vehicles. In FY19, the budget is projected to increase to $2.9 million which includes additional funding for start-up and testing as well as half a year of operations since the streetcar is expected to be operational for the public beginning in December 2018. In FY20 the budget is expected to increase to $3.9 million annually, the first full year of operation.*

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

And last are additions for the radio system replacement at $975,000 per year beginning in FY18 and operation of two new MAPS3 projects, the downtown park and the convention center. An additional $0.7 million in budget is projected to be needed in FY18 as the north portion of the park is under construction so that operations can be planned and staff hired and trained. The budget is expected to increase to $2.2 million in FY20 when the park opens to the public. Budget could increase to $2.7 million when the south park opens based on programming and maintenance requirements. Overall, the other services category is expected to grow an average of 6.85% per year.



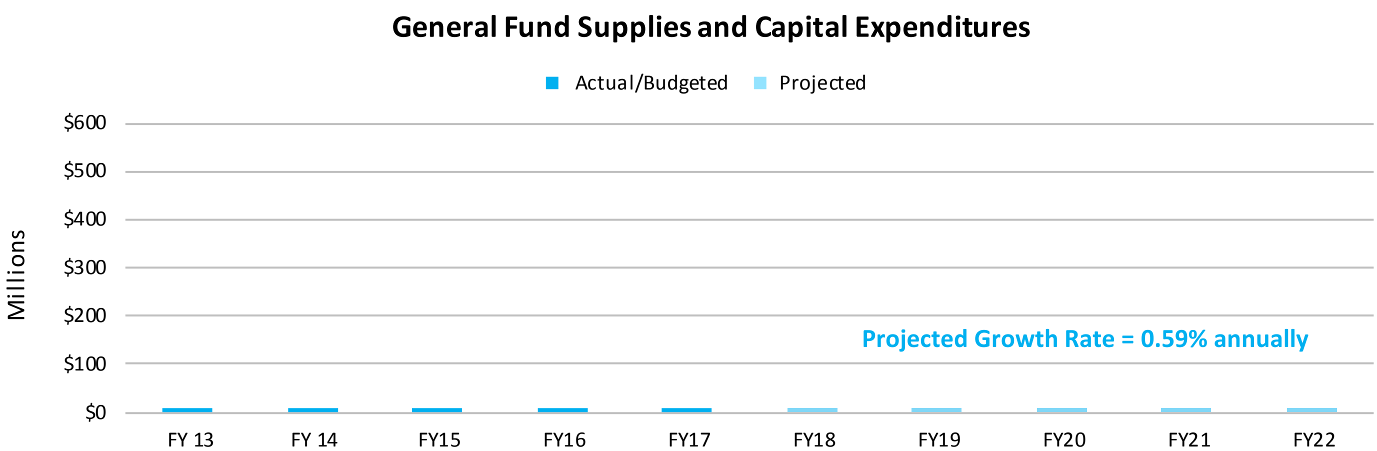
SUPPLIES AND CAPITAL

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

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

Supplies and Capital Expenditure Projections

Supply and capital costs are expected to grow at 0.59% 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 FY17 General Fund budget includes $18.7 million in transfers. The three largest transfers in this category include $6.7 million for transfer to OCPPA for operation of the Chesapeake Energy Arena and Cox Center; $3.9 million for transfer to the Emergency Management Fund for 911 operations; and $2.25 million for transfer to the Capital Improvement Fund.

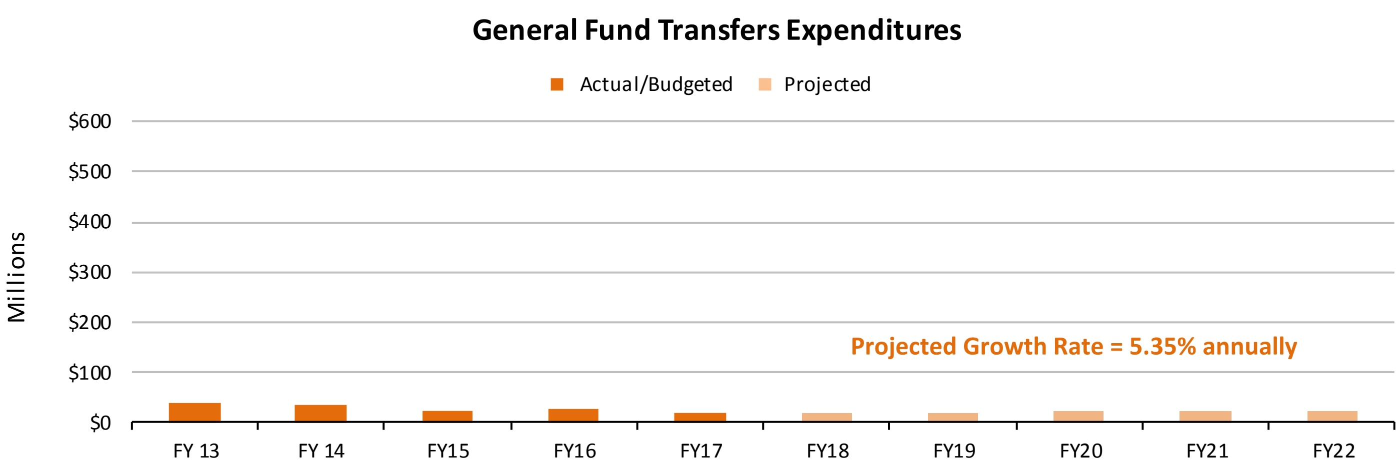
The chart below shows average transfers of $33 million in FY13, FY14 and FY16. In those years, City Council amended the budget each year to transfer fund balance of $8 million to CIP for street and other capital repairs.

Transfers Expenditure Projections

Transfers are expected to increase an average of 5.35% annually over the five-year forecast period.

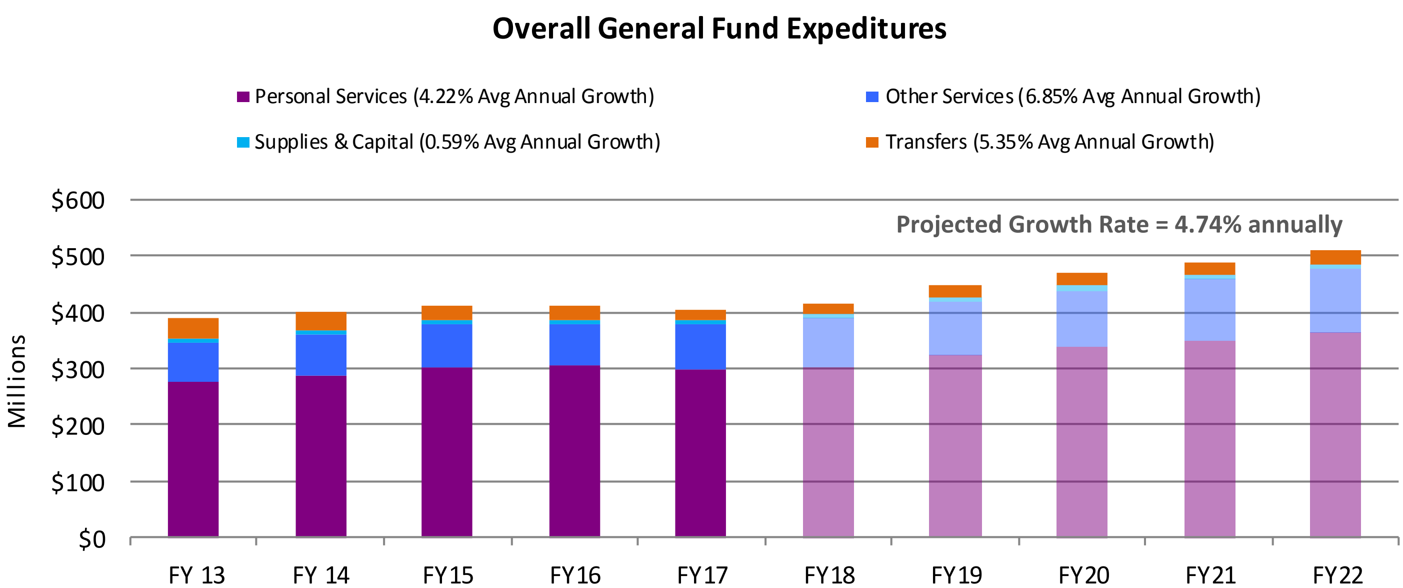

Cox Convention Center


Chesapeake Energy Arena



OVERALL EXPENDITURE FORECAST

When all of the categories are combined, the net effect is annual growth of about 4.68% in General Fund expenditures over the next five years. Growth in FY18 is expected to be 2.68% as the radio system is replaced and startup costs begin for two of the MAPS3 projects, the downtown park and the streetcar. Growth rates take off beginning in FY19 as more MAPS3 operating costs come online and public safety needs increase with the addition of a new fire station and a desire for more police officers. To put that in dollar terms, expenditures are expected to grow from a FY17 budget of $404 million to $508 million in FY22. The chart below provides a visual representation of that growth.



SECTION 8

GENERAL FUND

REVENUE/EXPENDITURE GAP

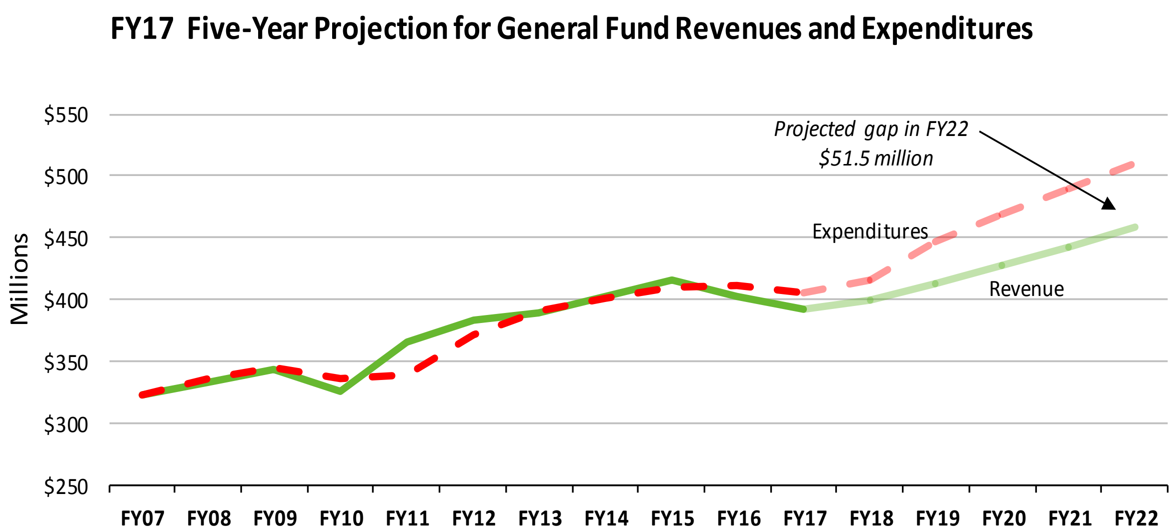
A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to Oklahoma City's continued financial stability.

PROJECTED REVENUE/EXPENDITURE GAP

Historically, the city's financial forecasts have projected a revenue/expenditure gap. A financial gap appears when projected General Fund expenses exceed anticipated revenue collections. This gap poses a real, but manageable, threat to the city's continued financial stability. After the national recession and declining revenues in FY10, the city experienced significant growth in FY11 and FY12 which put the city back on a much more positive track before growth began to slow again as the energy sector began to contract. In FY16 General Fund revenue declined 3.05% and in FY17 General Fund revenue is expected to decline 2.54% marking the first time the General Fund has experienced back-to-back declines since the oil bust in the 1980's. In FY18, growth of 1.65% is anticipated in the General Fund but it will only return the General Fund to a budget of approximately $400 million which is comparable to FY14 levels.

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

Through FY22, revenues are expected to average 3.17 % growth annually. Expenditures, on the other hand, are expected to grow at an average rate of 4.74% annually. The difference between the two growth rates is reason for concern, although the gap between revenues and expenditures will be closed each year so that the city has a balanced budget. The projected gap, if no adjustments to revenue or expenses are made, grows to $51.5 million in FY22.

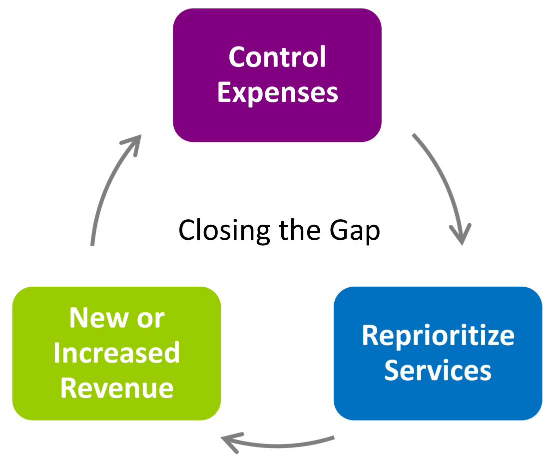


The General Fund Revenues and Expenditures chart above shows ten years of actual figures (FY07 – FY16) and projections for FY17 – FY22. In past years, when the expenditure line is above revenue line, the city used reserves (fund balance) to balance that year's revenues and expenses. In years where revenues were above expenditures, the city added to reserves.

CLOSING THE GAP

State law mandates a balanced budget so every year the city must close the gap. In FY17, if expenses exceed revenue as currently projected, the City will use fund balance to close the gap and balance expenses with revenues. For FY18, there is a projected gap and departments were asked to make cuts. For General Fund departments the request was a 4% reduction and for Public Safety the request was for a 1.25% reduction. In future years, it appears departments will continue to need to make reductions annually to keep the budget balanced or the City will need to find new revenue sources or expand existing revenue sources to balance the budget. Future funding gaps can be avoided through continued expenditure control, reprioritization of city services, addition of new revenue sources and the judicious use of fund balance.

Expenditure control is the area where the city has the most flexibility and the most power to close the gap. Since personal services are the majority of city costs, controlling the growth in this area, especially health insurance, will be key to maintaining financial balance. The most effective means to achieve a balance between controlling personnel costs while maintaining competitive salary and benefit packages for employees in the future will be to limit salary and benefit growth to within the approximate growth rates of city revenues. The city continues to work to find ways to maintain personal service cost growth within the revenues available and the demand for increased services. Improved efficiency in operations is also an avenue for controlling expenditure growth. Tight budgets have necessitated that departments continually look for ways to do more with less, thereby driving many efficiency gains, but it has also resulted in some reductions in service levels.



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

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

SUMMARY

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

FIVE-YEAR FORECAST

FY 2018-2022

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