

OVERVIEW

The Budget Process Many components of the budgeting process are dynamic and occur throughout the entire year. The City Commission is typically brought into the process at a regularly scheduled Board of Commissioner's Meeting (work session) in early January. At that time a presentation the City's budget philosophy and application of that philosophy are reviewed. General Fund revenue, expenditure, and budget issues are also discussed. Departmental expenditure histories are then reviewed and trends identified. Challenges recognized and discussed for Fiscal 2016-17 include contracting sales tax and franchise fee revenues, unpredictable fuel and commodity costs, increasing worker compensation and health care costs, and continuing capital infrastructure needs for the electric, water, wastewater, solid waste and stormwater utilities. Finally, early Commission input is solicited regarding new programs and capital improvements desired, questions or concerns on current rates and fees are discussed, as well as departmental operations to be considered in planning the budget for the coming fiscal year.

Finance ushered in 2016 by working with departments to derive initial revenue projections for the General Fund and utilities for Fiscal 2016-17. A budget kick-off session was held with all departments on January 25, 2016, where the budget process and objectives were outlined for department heads, supervisors, and support staff. At this time a packet of relevant preparation materials including expenditure histories and capital and travel request forms was given to each department to facilitate budget preparation and requests. The meeting also provided a forum for a question and answer session to identify any areas of confusion.

The City Commission heard from outside agencies requesting contract for services funding at the regularly scheduled work session on March 21, 2016. Each agency director presented an overview of current services for the community. All requested service agreements were flat from the prior year.

City management met with department representatives on capital requests and operating budget requests during the second week of March 2016. On April 14, 2016, an initial draft of the City Manager Proposed Budget for Fiscal 2016-17 was delivered to members of the City Commission. The City Commission then met for two, all day open meeting hearings with management and departments on the proposed budget on April 18 and 19, 2016. These two days were a critical time for the Commission to have an open discussion with each department on their respective services, operations, accomplishments, and objectives for the coming year. This was also a forum for discussion of benchmarks and performance measures.

A revised draft of the proposed budget was published in summary form as outlined in the Oklahoma Municipal Budget Act, in the Ponca City News on Sunday, May 1, 2016. Also published at that time was notice of a public hearing on the Fiscal 2016-17 Budget, to be held at the regularly scheduled Board of Commissioner's Meeting of May 9, 2016. A public hearing was held on that date to solicit input on the budget from the community. In accordance with provisions of the City Code of Ordinances - Municipal Charter, Section 65 and the Oklahoma Municipal Budget Act, a final draft of the proposed budget is now being presented to the City Commission for consideration.

During the course of any year, unforeseen opportunities, emergencies and business conditions may necessitate amending the budget. The City follows guidelines in the Oklahoma Municipal Budget Act for all of its funds, and does not allow category expenditure budgets to exceed 100%. Budget amendment requests are evaluated by the City Manager, who has authority to approve category transfers. All other budget amendment requests, if approved by the City Manager, go to the City Commission for approval by resolution.

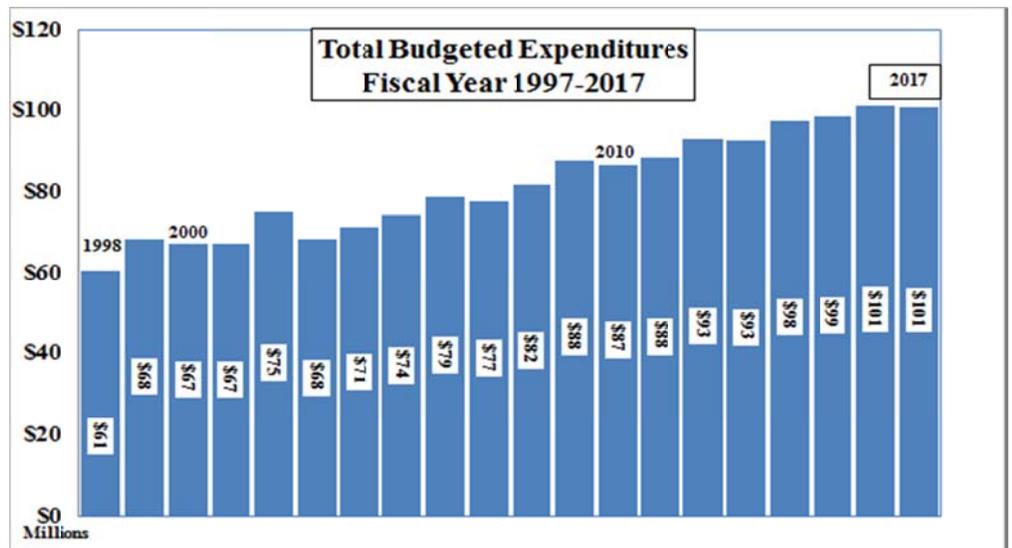
Background Budgeted for Fiscal 2016-17 are thirty (30) funds, or self-balancing sets of accounts, each capturing activity from a type of operation. The funds budgeted include sources and uses for the General Fund, Special Revenue Funds, Capital Improvement Projects Fund, Debt Sinking Fund, Ponca City Utility Authority (PCUA) Funds, Other Enterprise Funds, Internal Service Funds and all Trust Funds of the City of Ponca City. Revenues for each fund are budgeted by source. In each fund and department, expenditures are budgeted by the aforementioned category types as set by State statute, including Personal Services, Materials & Supplies, Other Services & Charges, Capital, Debt Service and Transfers.

The City uses full accrual accounting with its proprietary fund types such as the utilities, which means both revenues and expenses are charged to the period earned or incurred. The City uses modified accrual basis of accounting with governmental fund types such as the General Fund, which means expenditures are charged to the period incurred, but revenues are recorded when cash is actually received. The basis of budgeting for all funds mirrors their respective basis of accounting. The City recognizes compensated absence liability, where an employee has earned a paid absence that has not been satisfied, and records changes in the liability annually. Capital is also budgeted by all City funds, and expensed when purchased for the sake of history. Accounting capitalizes all capital purchases within thirty days of receipt, and records the asset and non-operating revenue to offset the effect of the expense on the operating statements.

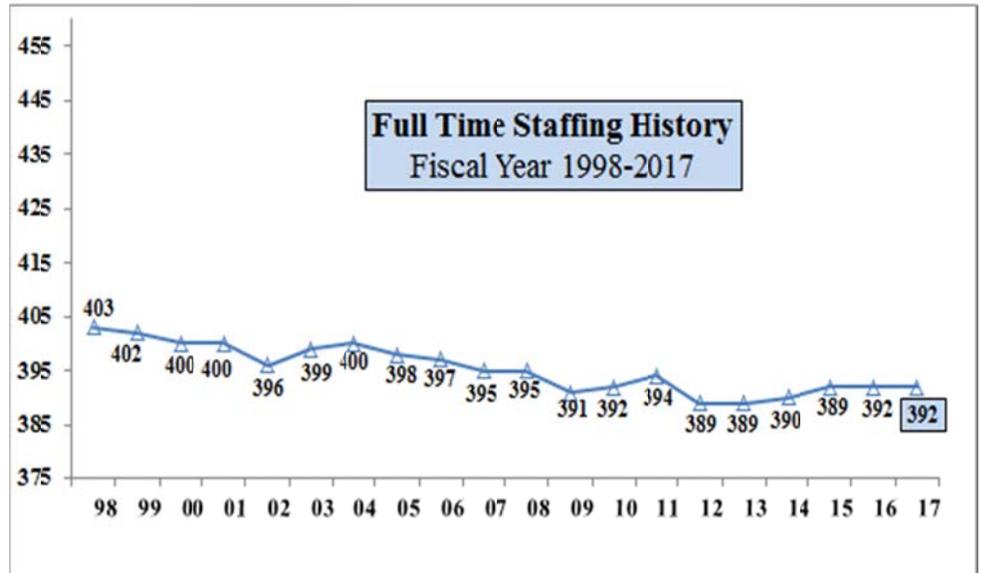
Included in the proposed budget for Fiscal 2016-17 is a five-year capital plan. A long-term plan for capital is one of the City Commission’s strategic goals and attempts to identify major infrastructure, building and equipment needs for the coming five years. Although each department identified items listed in the plan, the plan does not represent a Commission approved budget for the next five years, but rather a planning tool of what each area of the City has identified as projected needs. Listed with each item in the section are possible funding sources, as it is important to note that current revenues are not sufficient to fund all needs identified. Each department will present to the Commission long-term capital needs identified in their respective areas, over the coming year at work sessions. The plan is by nature a fluid document that may change significantly each year as mandates, opportunities, needs, programs and services change, and revenue projections are available.

The Fiscal 2016-17 Budget has been challenging in many ways. The total budget for all funds is proposed at \$101,002,804, a decrease of \$379,155, or .37% from the original budget of Fiscal 2015-16.

The decrease is due largely to decreased electric sale revenue and related purchase power expense. As illustrated above, the proposed aggregate budget for the coming year is approximately 66% higher than the original budget of Fiscal 1997-98, twenty years ago. This represents an average annual increase of less than 2.8%, illustrating staff commitment to cost containment.

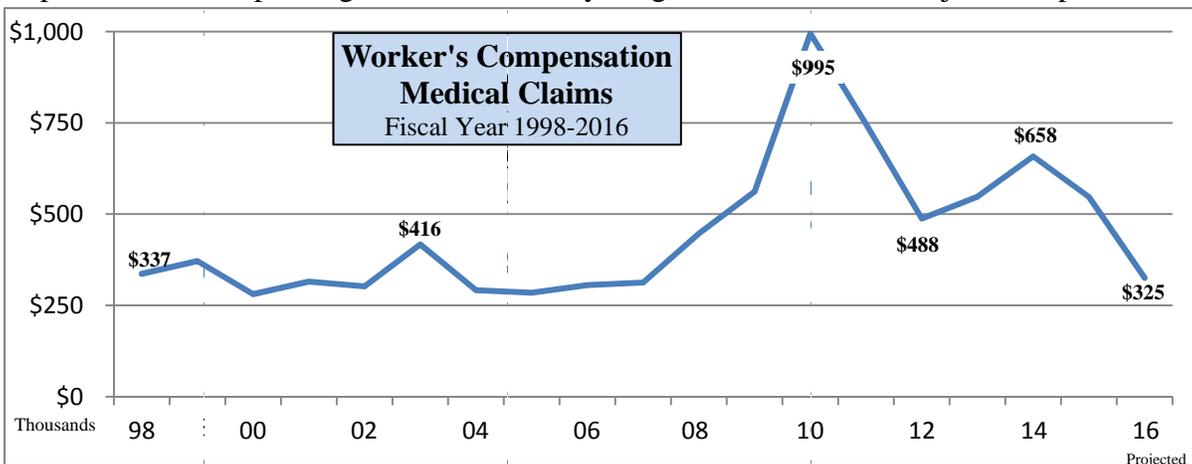


The full time employee base across the City is proposed at 392. No layoffs occurred in the prior year, nor are any planned for the coming year. The proposed full-time staffing for Fiscal 2016-17 is approximately 3% less than that of twenty years ago, in Fiscal 1997-98 again illustrating commitment to continuous improvement in service efficiencies, productivity, and conservative fiscal policy.



The cost of providing health insurance benefits to City employees has escalated significantly over the past two decades. City staff worked extensively with consultants and other resources to help determine the best strategy, including bids for fully insured plans and high deductible plans. With positive trends recently, the approved budget includes a 5.0% increase for the City and employees for health coverage. City employees who choose single health insurance coverage pay a premium of \$1,573 annually, with the City funding \$6,292. Employee plus one coverage is \$2,846 annually, with the City funding \$11,382. Employees choosing family coverage pay \$4,270 annually, with the City funding \$17,079. The funding of health care benefits is a mounting concern for most employers, and cost-containment will continue to be a challenge for the City going forward with projected double-digit inflation in the industry.

Another area of volatile personnel related costs are from worker's compensation expense. Although these had decreased significantly in Fiscal 2004-05 to a near decade low level, this was followed by a period of rapid escalation, a peaking, and more recently a significant decrease. Projected expenses for W/C Medical



expenses for Fiscal 2015-16 are \$325,000, significantly lower than the peak of \$995,000 seen in Fiscal 2009-10. The City is self-insured for worker's compensation medical claims,

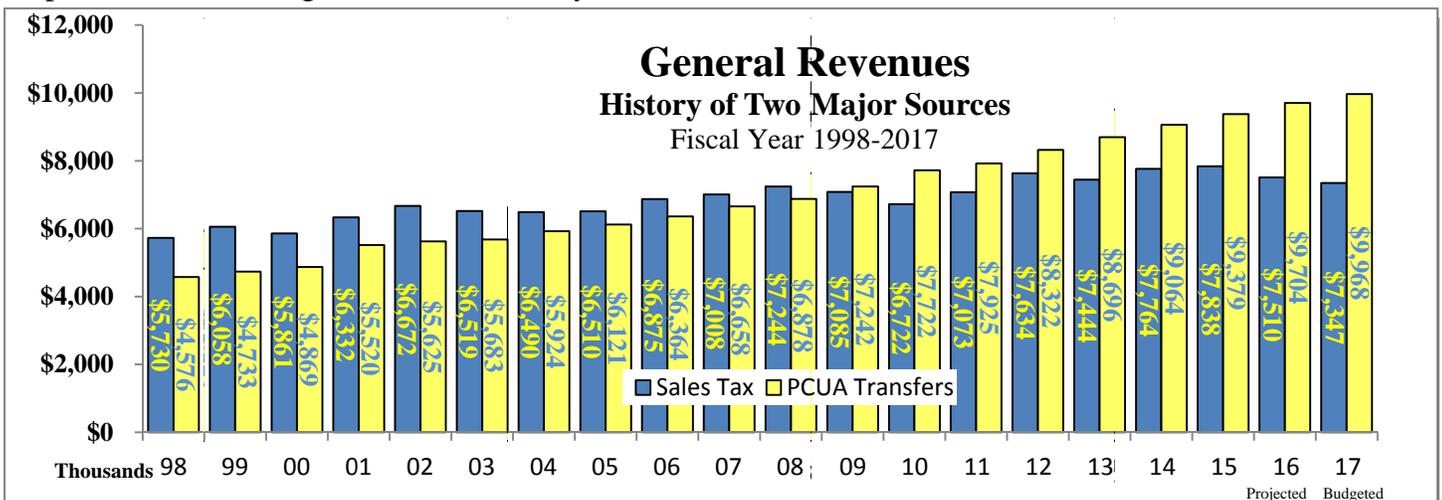
and maintains a department in the Internal Service Workers' Compensation Fund for this purpose. Premiums are paid based on a straight percentage (3.0%) of wages by all departments with personnel, without regard for risk/loss scales. Court ordered claims fluctuate from year-to-year, and are recovered through ad-valorem tax, as provided for in Oklahoma statutes. This method is a significant value for many departments, whose premiums would be up to eight times this amount for coverage purchased in the marketplace. Over the past fifteen years, increased training and attention to safety issues by City staff has had mixed results. Worker's compensation related costs will continue to be a challenge in the foreseeable future.

In keeping with the City Commission objectives, the Fiscal 2016-17 Budget does maintain a designated fund balance in the General Fund of \$2,100,000, as defined by Resolution #6134, which was approved by the Board of Commissioners on October 13, 2014, when the previously approved amount was increased by \$200,000. This designated fund balance is a reserve equal to approximately a 5-week operating budget in the General Fund, and provides a buffer against unforeseen natural, man-made or economic disasters.

Each of the four major PCUA utility operations also has designated fund balances, as established by Commission Policy Statement #20. This policy sets as a target fund balance for the Ponca City Energy Fund, an amount equal to the highest monthly purchased power bill over the past three years plus 10% of the system’s fixed assets. The policy statement also provides that for the Water and Wastewater funds, a target fund balance equal to a 60-day operating balance plus 10% of the system’s fixed assets be maintained. The policy also addresses the Solid Waste Fund, targeting a fund balance equal to a 60-day operating balance, as well as the maintenance of a Depreciation Reserve Fund. A fund balance for landfill closure funds as set out in Subtitle D of the Resource Conservation & Recovery Act is also targeted, and funded for Fiscal 2016-17.

GENERAL FUND

Sales Tax Revenue There is currently a 2.0% sales tax dedicated for General Fund operations, generating revenue equal to 34.1% of total budgeted revenues for Fiscal 2016-17. Over the past twenty years, year-over-year increases in this revenue source have fluctuated from -5.1% to +11.4%, with a long-term average increase at just under 2.0% annually. When adjusted for inflation, long term sales tax collections have experienced little real growth, and are nearly flat. There are three distinct threats to sales tax revenue that have



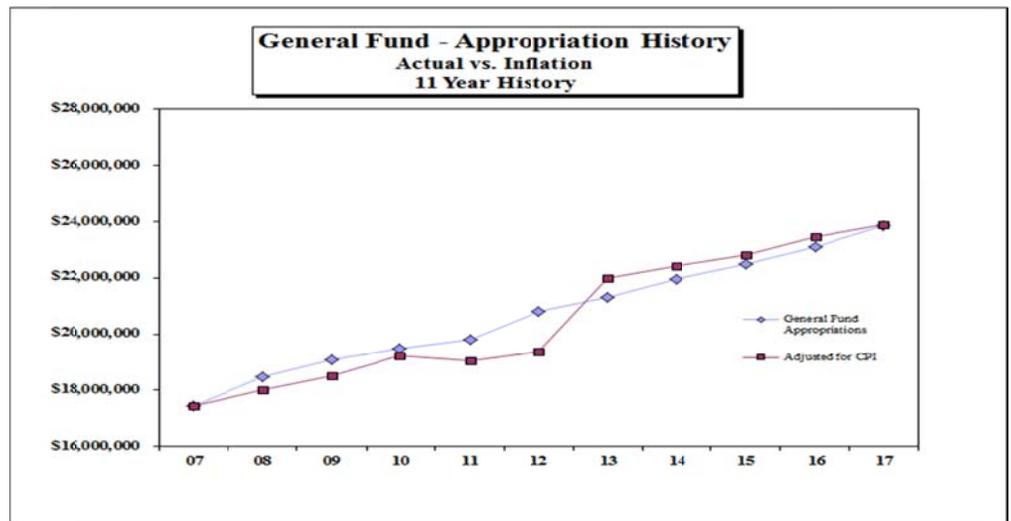
contributed to the lack of growth, more specifically, growth in internet sales, the effect of the State legislature annually exempting more special interest groups and sale types from sales tax, and competition for discretionary spending by legalization of the lottery and casino gaming. Fiscal 2002-03 sales tax collections decreased 2.29%, followed by another decrease in Fiscal 2003-04 of 0.44%. In Fiscal 2004-05, collections turned around with an increase of 0.30% at the close of the year, and Fiscal 2005-06 saw strong growth, up 5.60%, due to heavy construction projects during the fourth quarter, followed by an increase of 1.94% in Fiscal 2006-07. Fiscal 2007-08 year collections increased 3.37% from the prior year, with Fiscal 2008-09 collections down 2.19% from the prior year. Fiscal 2009-10 collections saw the brunt of the recession, with a decrease in collections of 5.12%. Collections for Fiscal 2010-11 rebounded with an increase of 5.22%, followed with even stronger returns in Fiscal 2011-12, with a year-over-year increase of 7.9%. Fiscal 2012-13 saw some softening with a decrease of 2.5%. Fiscal 2013-14 rebounded with an increase of 4.3%. Fiscal 2014-15 started strong, but ended the year up a meager 0.96% with a contraction in the oil related economy. With two months remaining in the fiscal year, collections are projected to be down 4% over the prior year. Budgeted sales tax revenue for Fiscal 2016-17 is \$7,346,943, a 2.0% decrease from the projected collections of Fiscal 2015-16.

Transfer Revenue Under the Oklahoma Constitution, cities are prohibited from levying ad-valorem property taxes for operations. Therefore, critical to the funding of essential City services is the transfer of residual equity, or return on investment (ROI), from city utilities. As illustrated on previous page, through Fiscal 1997-98 transfers from the PCUA had been a decreasing revenue source as a direct result of preparing the electric utility for deregulation and Water and Wastewater plant reconstruction projects. Over the past fifteen years this revenue source has increased, however, and administration charges to the PCUA for General Fund services and residual equity transfers are proposed for Fiscal 2016-17 at \$9,968,470, a 2.7% increase over the previous year, making it the largest source of revenue for the General Fund, with sales tax revenue in second place. The potential threat of electric deregulation that was very real ten years ago has diminished somewhat, in the wake of failed attempts in California and other states, but is nevertheless a continuing threat.

Other Revenues Other notable revenue changes in the General Fund include the third largest revenue source in ambulance revenues, which are budgeted at \$1,300,000, a 4.0% increase. Municipal Court fines are the fourth largest revenue source for the General Fund and have rebounded from decade lows, projected to increase by 8.6% in the coming year. With interest rates at historic lows, interest income continues to languish, and is projected to stay at \$40,000. Total General Fund revenues for Fiscal 2016-17 are budgeted at \$21,572,913, a decrease of .63% from the prior year.

Expenditures The General Fund continues to provide the necessary funding to deliver quality essential and basic services to the community. These services do not mirror traditional for-profit businesses, and do not pay for themselves on a user-fee basis. Typical General Fund services include public safety, legislative, public works and streets, judicial, park and recreation, general government and cultural affairs.

The aggregate General Fund expenditure budget for Fiscal 2016-17 is \$23,861,654, an increase of \$763,527, or 3.31% from the original Fiscal 2015-16 Budget. The increase is caused by two main factors, an extraordinary 27th pay period that will occur during the fiscal year and a 2% cost of living wage increase for employees. Other than personnel related costs, the General Fund expenditure budget is essentially flat. Above is an illustration of General Fund budget history in Ponca City versus the same baseline budget growth by the CPI rate of inflation.



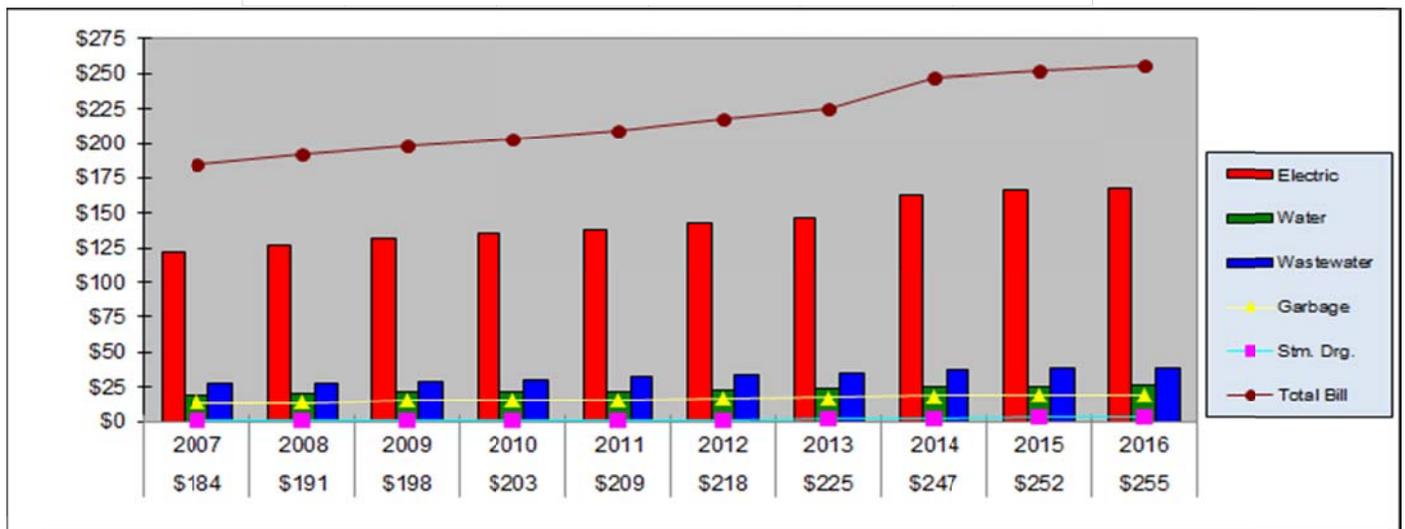
Spending on public safety continues to dominate funding of City operations, at 57.2%. This exemplifies a City commitment to make Ponca City a safe and healthy community. The Police Department continues to evolve with the changing needs of the community. Recent examples include Community Policing, Youth Police Academy, the placement of two officers in the Ponca City schools, and the addition of tasers, in car wi-fi and video as tools in the field, and digital ticketing. In recent years the department implemented the Extra Eyes Program, where citizen volunteers assist with fingerprint indexing and non-enforcement patrolling, and re-activated the Police Reserve Program, where sworn, trained, civilian officers serve the City without pay, to supplement current staff and resources.

Public safety related capital items in the coming year include three new marked Police vehicles and new software for the Police Department and a new ambulance for the Fire department. Replacement of aging capital equipment continues to be emphasized in the General Fund budget for Fiscal 2016-17. Major items to be funded include a new street sweeper for the Street Department, new splashpads for Attucks and Young parks, a new water slide for AMBUC Pool, and engineering and design work for a proposed new public safety center.

PONCA CITY UTILITY AUTHORITY

PCUA Revenues The PCUA offers electric, water, wastewater, solid waste, landfill, and stormwater services. The high cost of inputs, federal mandates, and inflation in general among the utilities has led to rate increase proposals for Fiscal 2016-17. This includes a 3.0% across the board increase in the water and solid waste utilities, a 1.0% across the board increase for electric utilities, and a 0% increase for wastewater. All stormwater rates will also increase by \$0.25. Below is a chart showing a breakdown of the average utility bill for a household of four and the history for the same. As displayed, long term, bottom line costs to our residents have been very stable, with increases held to reasonable levels. Ponca City compares well with peer cities on utility rates. The long term average annual increase is just under 3%.

10 Year PCUA Rate Chart for Average Family (4) Usage



Staff is proud that overall, the average PCUA residential customer still enjoys quality utility services at a bottom line cost that has only risen in step with inflation. This is an exceptional feat when considering the fact that the same residents are also the beneficiaries of excellent services derived from new water and wastewater plants completed in the late 1990's, three new electrical substations, and two lateral expansions of the landfill. While the past ten years have seen major emphasis on infrastructure at the front end of each utility, the Fiscal 2016-17 Budget reflects an increased emphasis on the delivery systems.

Water Years of planning and construction resulted in the completion of the Water Plant, which was re-dedicated on September 5, 1997. The plant meets all current and foreseeable EPA regulations. The plant has an expanded average daily capacity of 14 million gallons per day (MGD), with a peak capacity of 20 MGD. The added capacity represents an increase of 33% from the old plant. The plant has an expected life of 25 years, which is the life of the Series 1995B Utility System Revenue Bonds issued to finance the project. The utility has also added the Braden and McCord rural water districts as customers in recent years.

Critical to future water production is maintenance of the water rights from Kaw Lake as well as maximizing the traditional wellfield sources of water. Master planning for the utility is also underway, and needs to be completed before major decisions are made about future sources of raw water. Infrastructure improvements funded in the coming year include \$370,000 for Industrial Park Water Tank rehabilitation.

Wastewater In spring of 2000, the Wastewater Plant substantially completed a multi-year project to meet EPA regulations, to renovate the plant, and to expand capacity. The renovated plant has increased capacity from 5.8 MGD to 9.0 MGD, with peak capacity at 15.0 MGD. The department has now shifted primary focus to the collection system. In recent years the department has completed a major renovation to the Bois D'arc Lift Station, as well as replacement of the 35-year old Lake Lift Station, the Blake Lift Station, and the Briar Ridge Lift Station. The PCUA entered into a loan agreement of \$5,565,000 with the Oklahoma Water Resources Board (OWRB) during Fiscal 2007-08, utilizing low interest federal funds to complete several major collection system projects in subsequent years, the last of which was recently completed with replacement of a major interceptor line through the Phillips 66 refinery complex. Staff also recently completed three projects funded by 70% loan/30% stimulus grant funding from the OWRB, including an emergency generator at the main lift station, re-construction of the Brentwood Lift Station, and an emergency line project on Ash Street. Budgeted for Fiscal 2016-17 are some plant improvements such as valve replacements and variable frequency drive replacement, and collection line replacement project on South Franklin Street.

Ponca City Energy The Ponca City Energy Department has seen many changes in past decades. The position of General Manager of Electric Utilities was created and filled in the fall of 1997. A business plan was formulated and implemented, defining the three distinct businesses of the electric utility: generation, purchase & re-sale, and distribution. Electric generation facilities were leased to OMPA during 1997, with the contract amended in 2000 to shed all departmental responsibility for maintenance. As such, the proposed Fiscal 2016-17 Budget includes purchased power and distribution only.

The Series 1997C Utility System Revenue Bonds provided funding for the addition of the Northwest Substation which was constructed at Prospect and Ash Street, and put in service on June 1, 1999. The utility also completed an \$1.5M capital relocation of its office, warehouse, and poleyard north of town at 6714 North Pleasantview Road during Fiscal 2006-07, utilizing accumulated funds and without any additional debt. In 2008 and automated meter reading project was completed for both water and electric meters, eliminating the need for manual meter readers and improving departmental efficiency. An additional substation was completed in June 2009 in the McCord service area, as well a full replacement of the Diesel Plant Substation completed in late 2014, both of which were funded internally from accumulated fund balances.

Budgeted for Fiscal 2016-17 in the Ponca City Energy Fund are many major capital items and infrastructure improvements, most notably \$1.37M in distribution system improvements and \$175,000 for one new single bucket service truck.

Solid Waste The Solid Waste Fund includes collection and landfill departments. Collection revenues cooled with the economic contraction of 2008 & 2009, but has rebounded in the last couple years. Included in the coming budget is a rate increase of 3.0% to help cover cost drivers including equipment and personnel related costs. The most recent cell expansion at the landfill was completed in the summer of 2008. This expansion was funded by accumulated fund balances and was completed without any new debt, relieving further rate increase pressures on our community. There are several capital purchases budgeted for Fiscal 2016-17, including a new tractor with front end loader for the landfill, and a variety of smaller containers and equipment, all funded through the Solid Waste Depreciation Reserve Fund.

GIS Mapping Regular maintenance and improvements to PCUA infrastructure are required to assure that quality, uninterrupted utility services are delivered to the community. Much progress has been realized over the past decade to bring PCUA infrastructure up to date, positioning our community for the future.

The PCUA departments first came together in Fiscal 2000-01 to begin engineering for a Geographical Information Survey (GIS) mapping system. The GIS system data was collected and mapped by Electrical Systems Consultants, Inc. of Fort Collins, Colorado. Utilizing the global positioning satellite system (GPS) to perform the survey, a comprehensive field inventory of the electric and water distribution systems and the wastewater collection system was completed. Digital maps of the electric, water and wastewater systems have been built. This information and related software has been placed into a new computer server system along with the existing digital aerial land base maps of the City of Ponca City. The software has been created and customized to allow for data maintenance, input and query, so that each utility system can be updated and modified as changes and additions are made to the City's facilities. This real time update of infrastructure will provide an accurate and valuable tool to facilitate efficient response to outages and water leaks. The system will also assist with preventative maintenance programs, such as a valve-exercising program on the water distribution system.

The primary goals of this project are to reduce the costs associated with maintaining and accessing facility records, and facilitate maintenance of utility system infrastructure. The project creates a centralized, integrated system that allows faster access to maps and facilities data, reduces redundant operations and forces City-wide standardization. It also provides the mechanisms to better manage facilities, and that improves the utility planning, budgeting and forecasting process. The system is being built to allow easy integration of other maps and databases, so that as the system evolves and is made available to more groups within the City, the expansion process will be a relatively simple one. A GIS Technician was added as a new position to the City Engineering staff several years ago, to manage the information.

The maps are linked to various digital databases including facilities information, property records zoning, billing records, flood plain data, and much more. Through the use of viewing software, provided as part of this project and installed at various locations throughout the City, key personnel in the City of Ponca City will have fast, user-friendly, access to the above described maps and data, the use of which will invariably continue to expand in the future.

Technology Services (T/S) has networked most City offices on a local area network (LAN) over the past ten years, and has completed connecting all outlying departments by wired and wireless connection. The department successfully worked with the Utility Billing Department to modify software, coordinate the out-sourcing of bill printing, and transition from a postcard style bill to an 8 ½ x 11 billing format. This format gives customers more history and information on their utility charges, and the envelope-billing format will also give the City an alternate means to reach utility customers and members of our community with other information. The larger format is also more flexible, and will allow for expanded billing items as federal mandates such as stormwater run-off are addressed, requiring an additional utility.

T/S has also completed upgrading INCODE, the City’s financial operations software, to a Windows format. The upgrade provides City staff with more flexibility than offered by the previous DOS based system for reporting and data collection. T/S staff is working on a variety of projects currently, including an evaluation of Fiber To The Premises (FTTP) as a new utility. The department continues to work with Ponca City Energy to wire the community with fiber optic rings for further connectivity and to serve broadband to select business customers in Ponca City, as well as support Ponca City Free Wi-Fi infrastructure, making Ponca City one large wireless “hot-spot.”

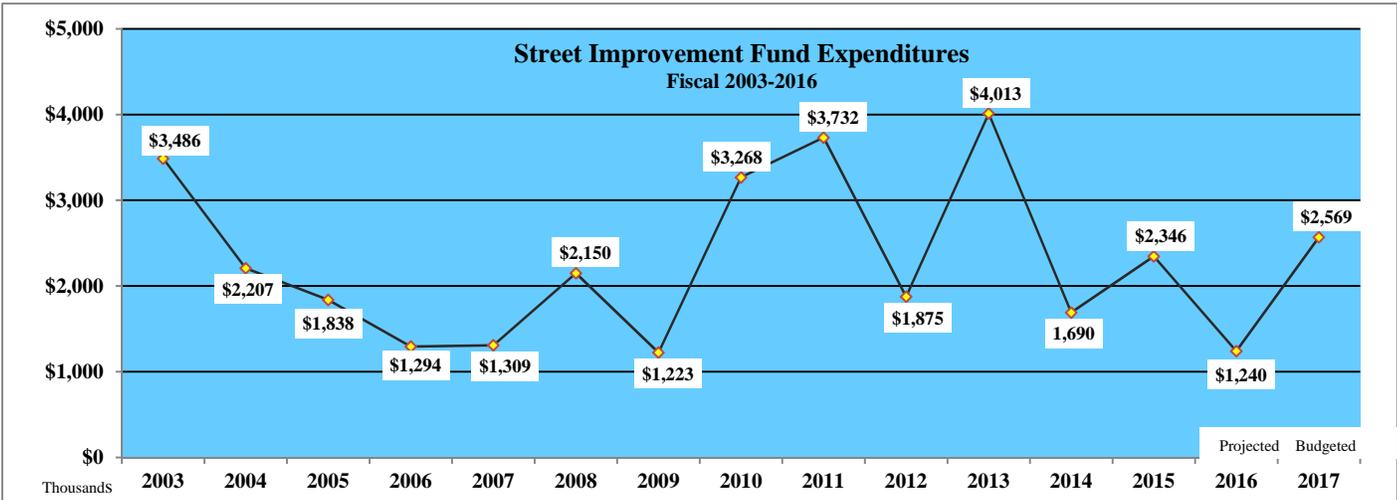
OTHER ENTERPRISE FUNDS

Airport The Ponca City Regional Airport is located in the northwest corner of Ponca City. The airport operates as an enterprise fund. The airport is no longer served by a commuter airline, as the federal government cut essential air service funding in Fiscal 2007, but continues to be the home of the famous Enrique’s Mexican Restaurant. Exciting projects at the airport in recent years included instrument relocation, dirt work, and construction of a 1,000-foot concrete runway extension project and taxiway improvements, as well as construction of a new maintenance building and purchase of a large snowplow. The projects are typically 90% Federal grant funded, supplemented by 5% State grant funding. The remaining 5% match is funded by the City, typically through the Capital Improvement Projects (C.I.P.) Fund. Budgeted for Fiscal 2016-17 is a new roof for building #15 and painting building walls of Hangars #7 and #8.

TRUST FUNDS

Cann Estate Trust Fund Elsie V. Cann left in trust to the City of Ponca City a house and land upon which it was her desire to see a memorial garden created in the memory of her parents. Ms. Cann also left a trust fund to provide for the operation and improvements to the facility. The trust fund has at times distributed 6% of corpus value annually, but with market contractions of 2008, this has been discontinued. A subsidy from the General Fund replaced it beginning in Fiscal 2009-10, and carries on into Fiscal 2016-17.

Street Improvement Trust The City of Ponca City is fortunate to have a dedicated ½ cent sales and use tax for street improvements which was recently renewed by 82% voter approval making it a permanent tax without expiration. The source provides funding for continued upgrade of Ponca City’s streets, roadways, curbs, sidewalks and trails. There are many major projects slated for Fiscal 2016-17 including a mill/overlay of Third Street from Highland to Waverly, asphalt reconstruction on Elm Street, from Ponca to Oklahoma, and reconstruction of Lincoln Street, from Oklahoma to Central Avenue.



Recreation Center Citizens of Ponca City approved an eight year, dedicated ½ cent sales and use tax for the construction of a new community recreation complex that will be called Ponca City Aquatic & Family Center – YMCA. When the project exceeded anticipated costs, residents approved a five year extension to the existing tax, which moved the expiration date to September 30, 2020. The complex is completed and has been open since December 2010. The site covers approximately 46 acres and includes four softball, four baseball, and two soccer/football fields. The fields opened in the Spring of 2012. The facility is approximately 76,000 square feet, and includes a gymnasium, two pools, fitness center, program studios, walking track, and much more. The entire center is managed by the YMCA of Ponca City on a contractual basis.

Economic Development Citizens of Ponca City approved extending an existing dedicated ½ cent sales and use tax for economic development that was set to expire on January 31, 2014, for an additional five years. The tax is transferred to the Ponca City Development Authority (PCDA) to carry out the economic development function. The PCDA had previously been a public trust governed by the same board as the members of the City Commission, but was spun off, and is now governed by a separate board of trustees that are appointed by the City Commission. Between 2008 - 2014, the Ponca City Development Authority has directly impacted the attraction, expansion and retention of 2,007 full time jobs in Ponca City, and that progress continues today. Budgeted for Fiscal 2016-17 is the exact amount of projected tax collections, which are then passed on entirely to the PCDA each month, immediately after receipt from the Oklahoma Tax Commission.



MUNICIPAL BUILDING
CITY OF PONCA CITY, OKLAHOMA
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