



Owasso, Oklahoma: 2016 Economic Outlook

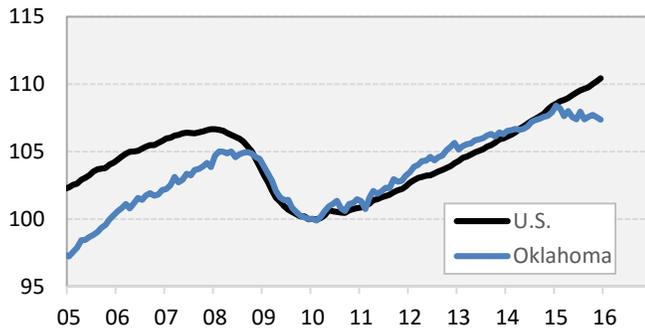
Owasso continues to grow but is feeling the leading edge of the oil and gas slowdown in the state. While local hiring remains strong, job growth will slow in 2016. Growth in the city's key retail and housing sectors will continue to outperform the state and Tulsa.

Outlook Summary:

- Owasso will be hampered by weak economic conditions statewide and in the broader Tulsa region in 2016
- Local Owasso job growth remains strong and is outpacing employment growth for Owasso residents
- Local jobs should expand by 3.2% in 2016 (400 jobs)
- Owasso's retail sector is among strongest in the state
- Population growth remains in the 3.0-3.5% range
- The housing market continues to grow, with an ongoing shift toward more multi-family units

The Owasso economy remains strong but will be tested in 2016 by the ongoing collapse in oil and gas activity. The state entered recession in early 2015 and remains weak into the first quarter of 2016. Hiring has declined steadily since January 2015 (see Figure 1). Most of the job losses remain confined to the mining and manufacturing sectors and the energy-producing regions of the state. In contrast, hiring continues at a very robust pace at the national level and in most non-energy states.

Figure 1: Index of Wage & Salary Employment – OK vs. U.S.
Jan-2010=100.0



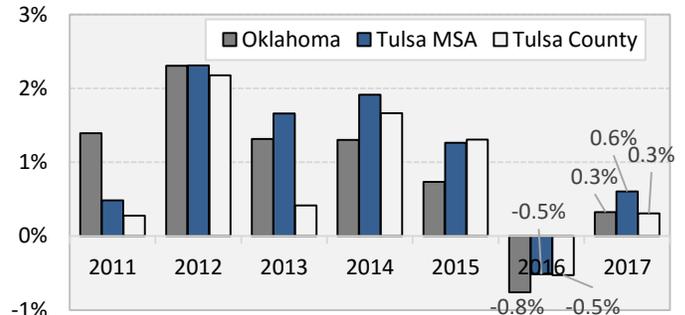
Source: Bureau of Labor Statistics and RegionTrack calculations

Our 2016 outlook for the state and the Tulsa region remain weak. Total state wage and salary employment is expected to fall by -0.8% (loss of 12,500 jobs) on a year-over-year basis in 2016. The Tulsa metro area should slightly outperform the state but still contract by -0.5% (loss of 2,300 jobs). Tulsa County is expected to match the metro area job decline of -0.5% this year, losing 1,900 jobs.

Under our current base scenario for oil prices, we anticipate the state to lose jobs through the 3rd quarter of 2016 before beginning a rebound in the 4th quarter. Only moderate job

growth is expected at both the state level and in the Tulsa metro area in 2017.

Figure 2: Wage & Salary Employment Growth
year-over-year growth

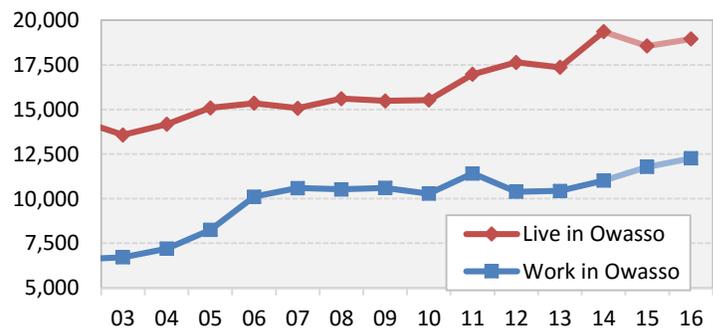


Source: Bureau of Labor Statistics and RegionTrack calculations

Despite these headwinds, the local Owasso job market fared much better in 2015 than the broader regional job market faced by Owasso residents. Local hiring in Owasso increased an estimated 7.1% (800 new jobs) in 2015 (see Figures 3 and 4). Our forecast is for local job growth to ease along with the state and Tulsa in 2016 but post a relatively robust 3.2% gain (400 new jobs). The lack of an oil and gas presence in Owasso will continue to insulate the city from much of the slowdown.

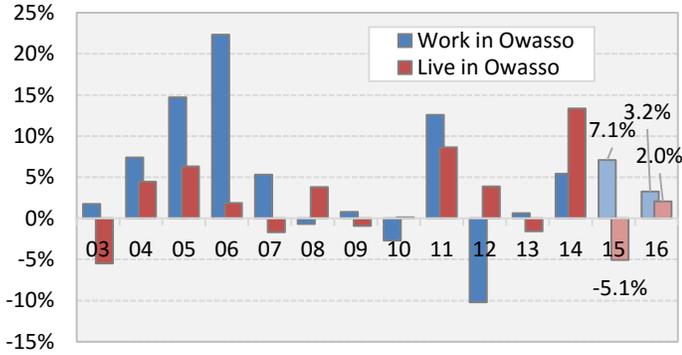
Conversely, hiring among Owasso residents in 2015 declined by an estimated -5.1% (see Figure 14), a loss of 800 jobs (see Figures 3 and 4). This weakness largely reflects the effect of the oil and gas collapse on the broader Tulsa metro job market. Our outlook is for employment of Owasso residents to rebound to 2.0% (375 new jobs) in 2016, outpacing job growth at both the state and Tulsa region levels.

Figure 3. Owasso Wage & Salary Employment



Source: Census Bureau and RegionTrack forecasts

Figure 4. Owasso Wage & Salary Employment Growth

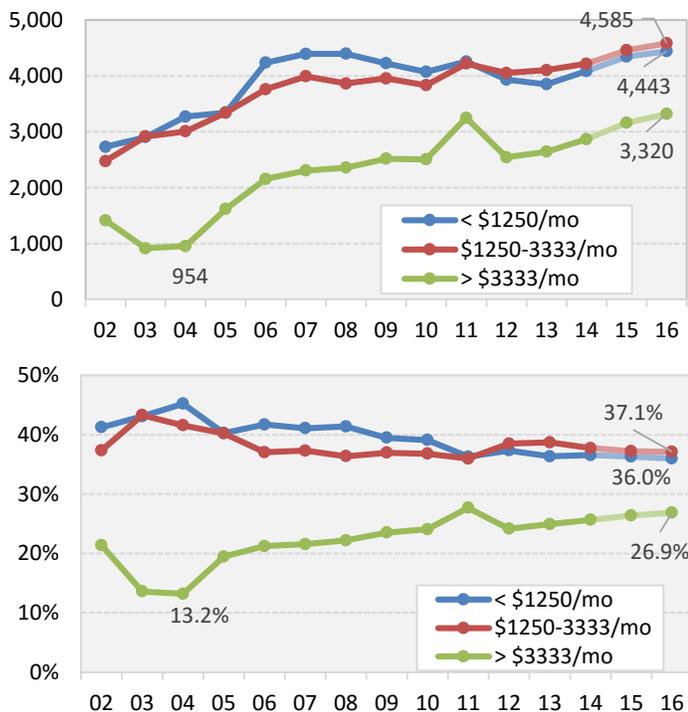


Source: Census Bureau and RegionTrack forecasts

The composition of job growth in Owasso continues to shift steadily toward higher-wage jobs (see Figure 5). The local job base has increased steadily across all wage levels since 2013 but has increased at the fastest pace among jobs paying more than \$3,333 per month, the highest wage category tracked (see Figure 5). The steady shift toward higher-wage jobs carries added significance given that it has taken place in a period of very little overall wage inflation.

Nearly 300 local jobs were added in the highest-wage group in 2015. Longer-term, the share of high-wage local jobs has roughly doubled from 13.2% in 2004 to a projected 26.9% in 2016. The share of lower-wage jobs (those paying less than \$3,333 per month) locally has declined from 86.8% in 2014 to only 73.1% of projected local jobs in 2016.

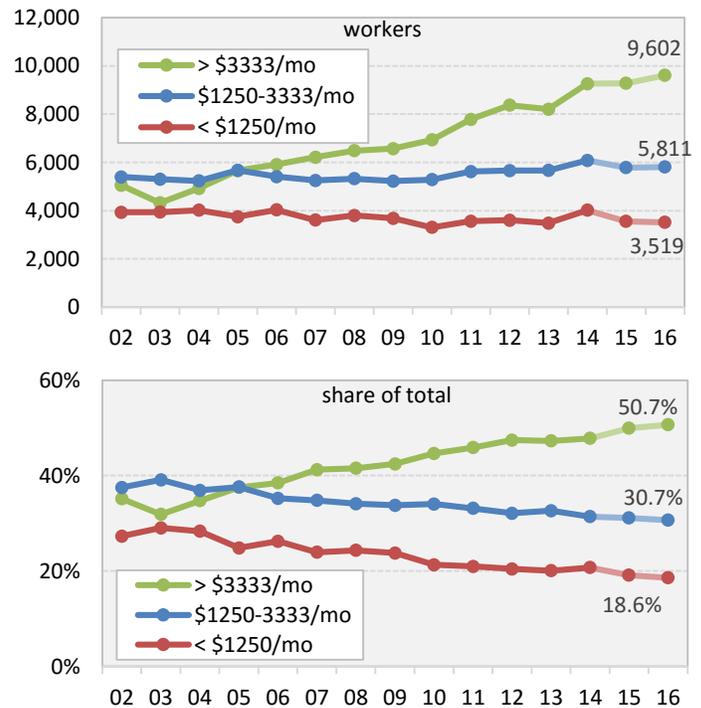
Figure 5. Employment of Owasso Workers by Wage Group



Source: Census Bureau and RegionTrack forecasts

Even stronger growth in higher-wage jobs is present among Owasso residents. In 2015, the share of local Owasso residents in the workforce who earned more than \$3,333 per month exceeded 50% for the first time (see Figure 6). This share is up from only 32% of local residents as recently as 2003. The number of resident workers in the highest-wage group was flat in 2015, but far outperformed the two lower-wage groups which both lost jobs in the period. Our 2016 outlook suggests that most of the job growth both locally and for local residents will once again take place within the highest-wage group of workers.

Figure 6. Employment of Owasso Residents by Wage Group

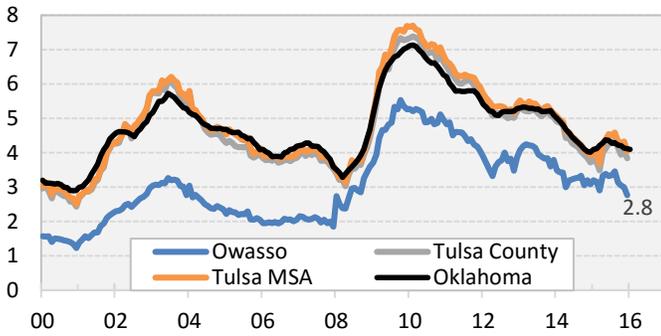


Source: Census Bureau and RegionTrack forecasts

Owasso's unemployment rate (for residents) pushed below 3.0% to 2.8% in early 2016 and remains roughly one percentage point below the rate for the region and state (see Figure 7). However, the region's jobless rate has made little progress overall the past two years and is still near the 3% average posted throughout most of 2014 and 2015. The recent backup in the unemployment rate statewide and in Tulsa in 2015 put upward pressure on the local rate in much of the period.

We expect Owasso to struggle to push the local unemployment rate lower in 2016 for two reasons. First, Owasso will not be immune to the struggle underway statewide and in Tulsa to digest layoffs in the energy sector. Second, the region is already nearing the recent historical low in the jobless rate of 2% reached in late 2007. We anticipate a slight increase in the unemployment rate to 3.3% in 2016.

Figure 7. Oklahoma and Area Unemployment Rates (%)



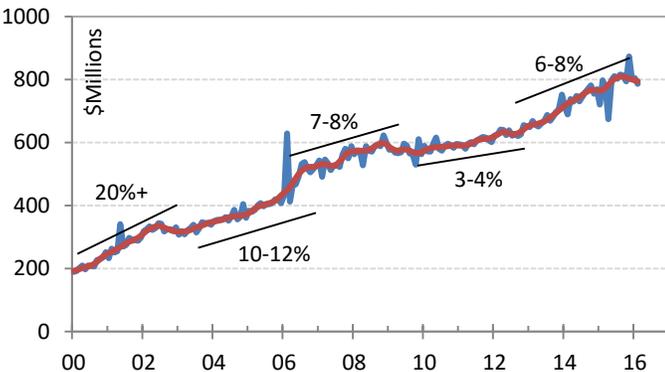
Source: Bureau of Labor Statistics

The city's retail sector posted a strong 6.0% gain in 2015 and remains in a steady uptrend. Local retail growth showed little of the weakness at the state level (-3.1% loss) in 2015. Local retail sales have now pushed above the \$800 million mark at an annual rate. Forecasts suggest that Owasso will move into the ranks of the 10 largest city retail markets in Oklahoma by late 2016 or early 2017.

Nevertheless, the momentum in retail growth slowed somewhat in the second half of 2015 along with most retail markets across the state (see Figure 8). This reflects both the slowing in local economic conditions and an inevitable slowing from the large 9.6% gain in retail sales posted in 2014. Long-term trend growth in retail activity remains in the 6-8% range but is down to 4.2% in the most recent 12-month period ended February 2016. Our outlook for 2016 is for retail sales growth to slow to 3.1% on a year-over-year basis.

Figure 8. Owasso Sales Tax Base and Growth Ranges

sales subject to sales tax, seasonally adjusted annual rate, X-12 trend



Source: Oklahoma Tax Commission and RegionTrack estimates

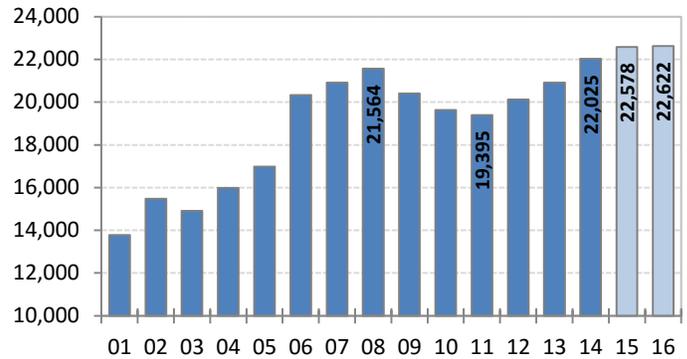
Retail sales also continue to grow faster than population, raising per capita sales (see Figure 9). City retail sales per capita increased for the 4th consecutive year to \$22,578 in 2015, up more than 15% since bottoming in 2011 at \$19,395. This remains well above the statewide average of \$13,800 per person. The large share of non-resident shoppers continues to support high per capita sales

and should provide needed market support for the recent local sales tax increase.

Our expectation is that gains in sales per capita will remain relatively flat (see Figure 9) in 2016 as retail sales growth cools a bit to only 3.1%. The expected growth in total retail activity is only slightly above our population growth forecast of 2.9% in 2016. Most regions of the state are expected to see declines in sales per capita this year.

Figure 9. Owasso Retail Sales per Capita

sales subject to sales tax, seasonally adjusted annual rate



Source: Oklahoma Tax Commission, Census Bureau, and RegionTrack estimates

For all of 2015, Owasso posted the 4th fastest retail growth among the 30 largest city retail markets in Oklahoma (see Figure 10). Only the Canadian County cities of El Reno (19.9%) and Yukon (12.0%) and nearby Broken Arrow (7.3%) outpaced Owasso. **Nearly half of the cities in the top 30 posted sales declines in 2015.** The city of Tulsa managed only 1.5% retail sales growth in 2015 while Oklahoma City posted a -0.4% loss.

Other Tulsa-area cities among the 100 largest with a retail sales gain in 2015 include Glenpool (8.1%), Skiatook (7.4%), Jenks (5.8%), Collinsville (4.7%), and Bixby (3.5%).

Figure 10. Oklahoma's 30 Largest City Retail Markets

City	Retail Sales			City	Retail Sales		
	2014	2015	% Chg.		2014	2015	% Chg.
1 El Reno	234.4	281.0	19.9%	16 Tulsa	7,570.1	7,683.1	1.5%
2 Yukon	474.3	531.3	12.0%	17 Ardmore	575.9	579.9	0.7%
3 Broken Arrow	1,274.5	1,367.1	7.3%	18 Lawton	1,111.7	1,112.7	0.1%
4 Owasso	744.2	788.7	6.0%	19 Sand Springs	307.3	307.0	-0.1%
5 Moore	813.6	852.9	4.8%	20 OKC	10,972.6	10,933.1	-0.4%
6 Bixby	282.9	292.7	3.5%	21 Ada	381.2	379.4	-0.5%
7 Shawnee	576.1	595.8	3.4%	22 Midwest City	843.6	831.1	-1.5%
8 Norman	1,860.2	1,923.1	3.4%	23 Bartlesville	561.9	552.2	-1.7%
9 Durant	335.7	346.7	3.3%	24 Stillwater	844.1	818.3	-3.1%
10 Tahlequah	282.0	290.0	2.8%	25 Enid	890.0	861.5	-3.2%
11 Edmond	1,668.3	1,711.4	2.6%	26 Chickasha	298.4	284.9	-4.5%
12 McAlester	390.9	401.0	2.6%	27 Ponca City	400.4	381.7	-4.7%
13 Claremore	365.1	374.1	2.5%	28 Duncan	440.8	415.6	-5.7%
14 Muskogee	599.1	609.1	1.7%	29 Woodward	375.4	317.6	-15.4%
15 Sapulpa	300.6	305.4	1.6%	30 Elk City	422.7	321.8	-23.9%

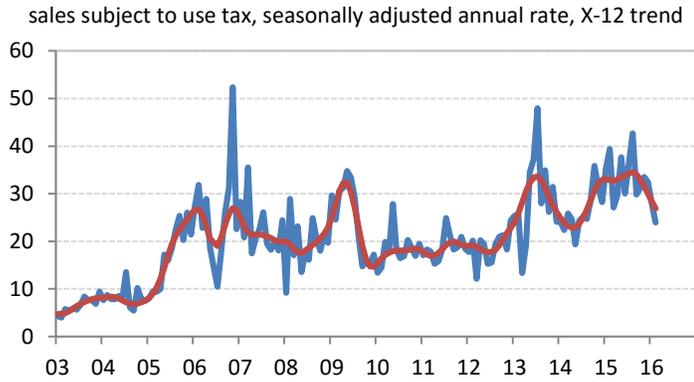
State of Oklahoma: -3.1% growth in 2015

Source: Oklahoma Tax Commission and RegionTrack estimates

Local use tax has pulled back sharply since late 2015 as local construction projects ended (see Figure 11).

Total use tax is now down from a trend annual rate of roughly \$35 million in late 2015 to about \$28 million at an annual rate in early 2016. Our outlook calls for a nearly 25% decline in year-over-year use tax receipts in 2016.

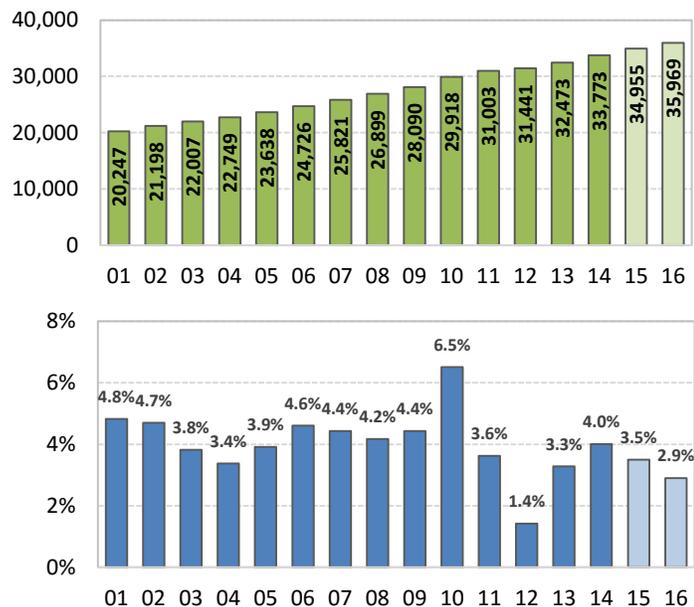
Figure 11. Owasso Use Tax Base



Source: Census Bureau and RegionTrack estimates

Recent Census revisions slightly raised the overall population gain in the area since 2010. Owasso population continues to expand at a robust 3.0-3.5% pace (see Figure 12). The data indicate that the city has bounced back to its pre-recession pace of adding roughly 1,000-1,200 new residents annually (see Figures 12 and 13). Our current model-based estimate is for 3.5% growth in 2015, down slightly from the 4.0% gain reported for 2014. This equates to approximately 1,175 new residents in the area for 2015. Our 2016 model-based estimate is for more slowing to 2.9% in 2016, or just above 1,000 new residents.

Figure 12. City of Owasso Population and Growth



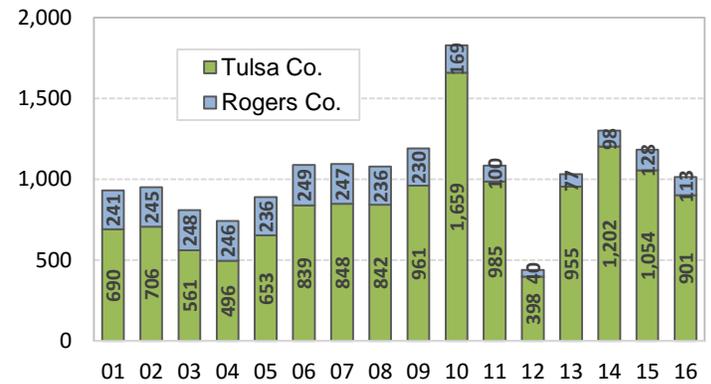
Source: Census Bureau and RegionTrack estimates

Beyond 2015, our intermediate-term population growth estimates suggest continue growth in the 3.0-3.5% range.

Recent Census revisions also suggest that population growth in the Rogers County portion of the city remains only about half that seen prior to the recent recession. (see Figure 13).

Census reports only about 100 new residents per year in Rogers County between 2011 and 2014. Our outlook is for this trend to continue through 2016. The home county of new city residents will continue to be determined by the location of new housing.

Figure 13. Owasso New Residents Annually by County



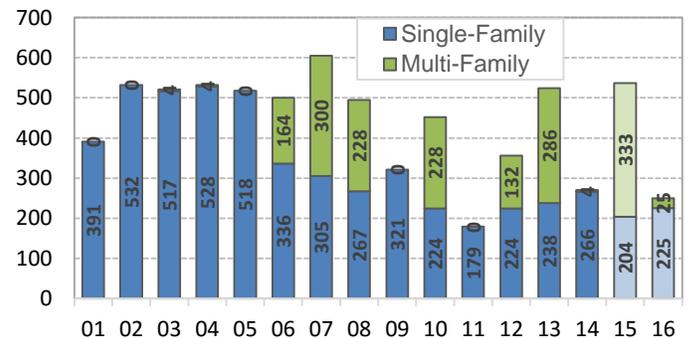
Source: Census Bureau and RegionTrack estimates

The Owasso housing market continues to shift toward a greater share of multi-family housing.

Single-family housing permits fell to only 204 units in 2015, down nearly 25% from 266 in 2014 (see Figure 14). Single-family permits remain at roughly half the level seen prior to the recent recession. We expect them to remain relatively flat in the range of 200-225 units in 2016 as the rapid expansion of multi-family units is digested by the market.

The 333 multi-family units permitted in Owasso in 2015 set a record for the city (see Figure 14). Since 2006, local builders received permits to construct nearly 1,700 multi-family units versus 2,550 single-family units, a roughly 40% share. Our outlook is for only a handful of multi-family permits in 2016.

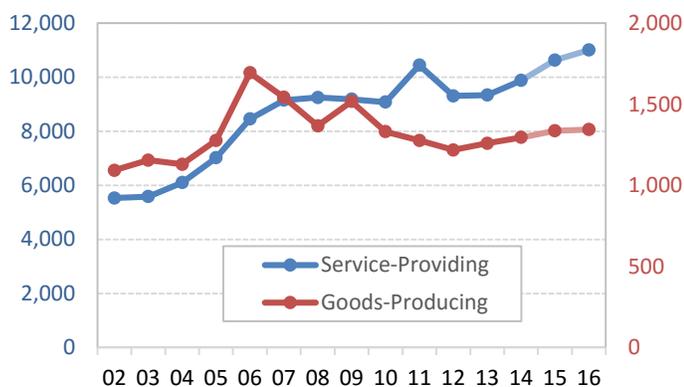
Figure 14. Owasso Single Family Housing Permits



Source: Census Bureau and RegionTrack estimates

Job growth in the local Owasso market is expected to remain heavily tilted toward the service-providing sectors. Of the 400 new jobs projected in Owasso in 2016, nearly all are expected in services (see Figure 15 and Table 1). Expected hiring at the new Macy’s facility, retail, food service, and health care underlies much of the gain. The city will have added an estimated 1,700 services jobs between the recent bottom in 2012 and 2016.

Figure 15. Owasso Local Employment – Goods vs. Services



Source: Census Bureau and RegionTrack estimates

The goods-producing sectors continue to play a secondary role in local job formation but have managed to add jobs at a slow, steady pace since 2012. Employment in the local goods-producing sectors is expected to have increased by a total of only 125 jobs since 2012. We expect relatively flat hiring in the goods-producing sectors in 2016 under pressure from the construction and mining sectors. (see Figure 15 and Table 1).

The primary risk factor to our outlook is a prolonged oil and gas pullback. The energy sector has been in full retrenchment since early 2015 and we anticipate only slow increases in crude oil and natural gas prices throughout 2016. This suggests that oil and gas activity will remain depressed through at least the end of 2016. The growing concern is that the weakness could extend beyond 2016 and into 2017. This would ultimately affect the Owasso outlook in a more substantial way in late 2016 and in 2017.

A secondary risk factor remains a national recession. This could have potentially adverse effects on both energy prices and the already weakened Oklahoma economy. A national recession would quickly produce tremendous spillover to the local Owasso economy. Nonetheless, we believe the odds of a recession in 2016 are below 20% at this point.

Outlook Summary. Owasso remains on a growth path despite the sharp slowing of economic activity at the state level. The city will not, however, be immune to slowing economic conditions both statewide and in the Tulsa region in 2016.

Our outlook calls for Owasso hiring growth to ease along with the state and Tulsa in 2016 but to post a relatively robust 3.2% local job gain (400 new jobs). The employment of Owasso residents is expected to rebound to 2.0% (375 new jobs) in 2016, outpacing job growth at both the state level and in the Tulsa region. We anticipate a slight increase in the unemployment rate to 3.3% in 2016.

Of the 400 new jobs projected in Owasso in 2016, nearly all are expected in the services sectors, with few new jobs created in the goods-producing sectors.

The composition of job growth in Owasso continues to shift steadily toward higher-wage jobs (those paying more than \$3,333 per month). The share of local higher-wage jobs has roughly doubled from 13.2% in 2004 to a projected 26.9% in 2016. The share of Owasso residents with higher-wage jobs now exceeds 50%. Our 2016 outlook suggests that most of the local job growth in Owasso will again take place within the highest-wage group of workers.

The city’s retail sector posted 6.0% growth in 2015, the 4th largest gain among the 30 largest city retail markets in Oklahoma. Long-term trend growth in retail activity remains in the 6-8% range but slowed in the second half of 2015 to 4.2% in the 12-months ended February 2016. Our outlook for 2016 is for retail sales growth to slow further to 3.1% on a year-over-year basis. We also expect a meaningful pullback in year-over-year use tax receipts in 2016 as local construction projects end.

Owasso population growth remains very robust in the 3.0-3.5% range. Our current model-based estimates suggest 3.5% growth in 2015 followed by 2.9% growth in 2016.

Ongoing population gains are driving strong gains in housing activity, with multi-family housing continuing to comprise a large share of the local market for new housing. We anticipate single-family permits to improve only slightly above 2015 levels, and only a handful of multi-family permits issued.

March 24, 2016

Table 1. Economic Indicators - City of Owasso, Oklahoma

Seasonally adjusted, annual rate

Economic Indicator	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e	2016f
Private Wage & Salary Employment (in Owasso)	10,152	10,692	10,617	10,700	10,413	11,724	10,529	10,595	11,172	11,964	12,352
% Change		5.3%	-0.7%	0.8%	-2.7%	12.6%	-10.2%	0.6%	5.4%	7.1%	3.2%
Goods-Producing Employment (in Owasso)	1,694	1,543	1,367	1,517	1,331	1,277	1,218	1,259	1,295	1,337	1,344
		-8.9%	-11.4%	11.0%	-12.3%	-4.1%	-4.6%	3.4%	2.9%	3.2%	0.5%
Ag, Forestry, Fishing	12	5	4	15	7	18	4	22	23	16	17
		-58.3%	-20.0%	275.0%	-53.3%	157.1%	-77.8%	450.0%	4.5%	-28.4%	3.4%
Mining	100	106	22	92	83	85	86	81	114	97	99
		6.0%	-79.2%	318.2%	-9.8%	2.4%	1.2%	-5.8%	40.7%	-14.9%	2.5%
Construction	709	563	527	472	391	305	395	376	481	410	406
		-20.6%	-6.4%	-10.4%	-17.2%	-22.0%	29.5%	-4.8%	27.9%	-14.7%	-1.0%
Manufacturing	873	869	814	938	850	869	733	780	677	814	823
		-0.5%	-6.3%	15.2%	-9.4%	2.2%	-15.7%	6.4%	-13.2%	20.2%	1.1%
Service-Providing Employment (in Owasso)	8,458	9,149	9,250	9,183	9,082	10,447	9,311	9,336	9,877	10,627	11,008
		8.2%	1.1%	-0.7%	-1.1%	15.0%	-10.9%	0.3%	5.8%	7.6%	3.6%
Trade, Transportation, and Utilities	3,091	3,293	3,008	2,517	2,758	3,887	2,771	2,838	3,085	3,492	3,652
		6.5%	-8.7%	-16.3%	9.6%	40.9%	-28.7%	2.4%	8.7%	13.2%	4.6%
Information	57	87	108	159	122	137	156	149	184	189	200
		52.6%	24.1%	47.2%	-23.3%	12.3%	13.9%	-4.5%	23.5%	2.5%	6.1%
Financial Activities	466	514	485	486	464	470	432	479	477	521	541
		10.3%	-5.6%	0.2%	-4.5%	1.3%	-8.1%	10.9%	-0.4%	9.3%	3.7%
Professional and Business Services	1,067	1,005	898	1,011	818	853	811	705	812	854	856
		-5.8%	-10.6%	12.6%	-19.1%	4.3%	-4.9%	-13.1%	15.2%	5.2%	0.2%
Educational & Health Services	1,904	2,129	2,354	2,542	2,476	2,503	2,538	2,450	2,497	2,520	2,550
		11.8%	10.6%	8.0%	-2.6%	1.1%	1.4%	-3.5%	1.9%	0.9%	1.2%
Leisure & Hospitality	1,349	1,548	1,766	1,846	1,772	1,923	1,901	1,984	2,087	2,271	2,387
		14.8%	14.1%	4.5%	-4.0%	8.5%	-1.1%	4.4%	5.2%	8.8%	5.1%
Other Services	268	287	338	302	360	368	375	408	426	439	474
		7.1%	17.8%	-10.7%	19.2%	2.2%	1.9%	8.8%	4.4%	3.0%	8.1%
Public Administration	256	286	293	320	312	306	327	323	309	340	349
		11.7%	2.4%	9.2%	-2.5%	-1.9%	6.9%	-1.2%	-4.3%	10.2%	2.4%
Employment (LAUS)	9,322	9,247	12,937	12,878	14,916	15,413	15,896	16,305	16,317	16,746	16,801
		-0.8%	39.9%	-0.5%	15.8%	3.3%	3.1%	2.6%	0.1%	2.6%	0.3%
Labor Force (LAUS)	9,513	9,439	13,323	13,531	15,710	16,135	16,509	16,986	16,864	17,297	17,366
		-0.8%	41.1%	1.6%	16.1%	2.7%	2.3%	2.9%	-0.7%	2.6%	0.4%
Unemployment (LAUS)	191	192	386	655	795	722	612	680	546	550	565
		0.5%	101.2%	69.6%	21.4%	-9.3%	-15.2%	11.0%	-19.6%	0.7%	2.6%
Unemployment Rate (LAUS)	2.0	2.0	2.9	4.8	5.1	4.5	3.7	4.0	3.2	3.2	3.3
		2.2%	41.3%	66.8%	4.9%	-11.5%	-17.3%	8.0%	-18.8%	-2.3%	2.6%
Sales Tax Base (\$Mil)	502.7	540.1	580.0	573.1	587.6	601.7	632.8	678.9	743.9	789.2	813.7
		7.4%	7.4%	-1.2%	2.5%	2.4%	5.2%	7.3%	9.6%	6.1%	3.1%
Use Tax Base (\$Mil)	24.2	22.7	19.2	24.8	18.4	18.8	18.7	29.0	26.2	33.8	25.8
		-6.3%	-15.3%	29.3%	-25.9%	2.0%	-0.2%	54.8%	-9.6%	28.9%	-23.7%
Wage & Salary Earnings (\$Mil)	209.6	209.6	220.4	251.5	257.3	250.5	262.3	265.2	294.9	324.1	347.1
		0.0%	5.2%	14.1%	2.3%	-2.6%	4.7%	1.1%	11.2%	9.9%	7.1%
Population	24,726	25,821	26,899	28,090	29,924	31,022	31,447	32,472	33,773	34,955	35,969
		4.4%	4.2%	4.4%	6.5%	3.7%	1.4%	3.3%	4.0%	3.5%	2.9%
Business Establishments	689	689	765	798	781	801	809	830	840	855	868
		0.0%	11.0%	4.3%	-2.1%	2.6%	1.0%	2.6%	1.2%	1.8%	1.5%
Single-Family Housing Permits (units, annual rate)	336	305	267	321	224	179	224	238	266	204	225
		-9.2%	-12.5%	20.2%	-30.2%	-20.1%	25.1%	6.3%	11.8%	-23.3%	10.3%
Multi-Family Housing Permits (units, annual rate)	164	300	228	0	228	0	132	286	4	333	25
		82.9%	-24.0%	-100.0%	na	-100.0%	na	116.7%	-98.6%	8225.0%	-92.5%
Total Permits (units, annual rate)	500	605	495	321	452	179	356	524	270	537	250
		21.0%	-18.2%	-35.2%	40.8%	-60.4%	98.9%	47.2%	-48.5%	98.9%	-53.4%
^e Estimate ^f Forecast	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015e	2016f