



# City Manager Report

The City of  
**OKLAHOMA CITY**

**NO:** 687

**DATE:** AUGUST 18, 2015

**TO:** THE MAYOR AND MEMBERS OF THE CITY COUNCIL

**SUBJECT:** INTERIM FINANCIAL REPORT FOR FISCAL YEAR 2015

This interim report is a budget report to provide the Mayor and City Council with a preliminary look at the City's finances for Fiscal Year 2015 (FY15). The Accounting Services Division has not finished their review and the independent auditor has not provided their opinion on the City Finances for FY15.

### General Fund Revenue Fiscal Year 2014-2015 (FY15)

General Fund revenues were **\$0.3 million** or **0.1% above target** in FY15 and \$9.6 million or 2.4% above FY14 collections. Seven of the ten revenue categories that make up the General Fund were above target at the end of the year as shown in the table below; this is a decline from the third quarter when nine categories were above target.

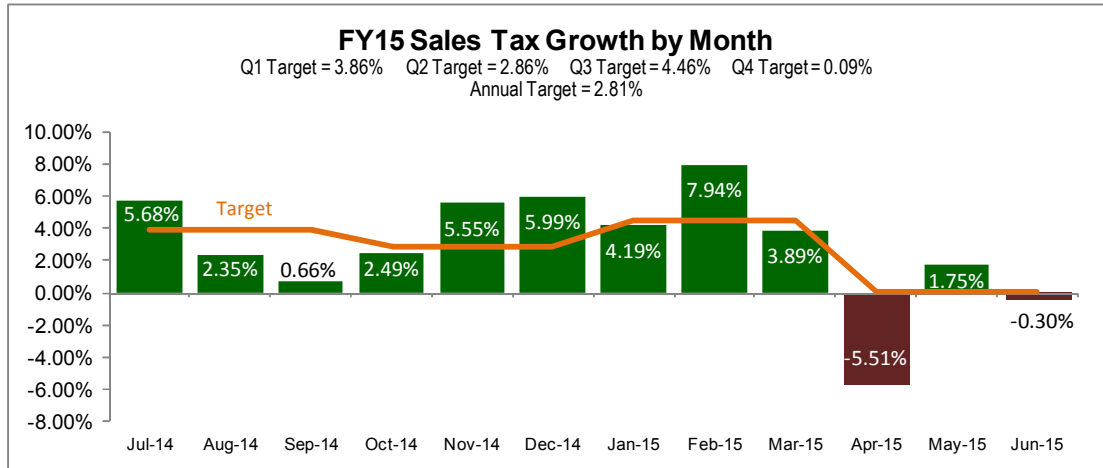


<b>GENERAL FUND REVENUE BY CATEGORY*</b>				
(Through June 30, 2015 - 100% of the year complete)				
<b>Category</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>	<b>Percentage</b>
Sales Tax	218,675,735	218,837,333	161,598	0.1%
Use Tax	39,608,700	37,879,687	(1,729,013)	(4.4%)
Franchise Fee	42,146,151	43,284,203	1,138,052	2.7%
Charges for Services	35,767,442	35,278,368	(489,075)	(1.4%)
Fines & Forfeitures	26,400,422	26,071,576	(328,846)	(1.2%)
Administrative Charges	17,934,546	18,088,729	154,183	0.9%
Licenses, Permits, and Fees	15,544,967	15,585,546	40,579	0.3%
Other Taxes	11,363,098	11,620,237	257,139	2.3%
Other Revenue	2,588,485	3,300,943	712,458	27.5%
Operating Transfers In	2,268,678	2,651,804	383,126	16.9%
<b>TOTAL GENERAL FUND*</b>	<b>412,298,224</b>	<b>412,598,423</b>	<b>300,199</b>	<b>0.1%</b>

\*Excludes budgeted Fund Balance.

Key contributors to the growth in General Fund Revenue were sales tax collections, growth in cable and electric franchise fees, growth in engineering related fees and building permits, and an increase in transfers from the OCMFA for nuisances abated by Code Enforcement.

*Sales Tax* Sales tax is the single largest revenue source in the General Fund and accounted for 53% of FY15 revenue. **Sales Tax grew at 2.9%** in FY15, **slightly ahead of the annual target** of 2.81% growth. Sales tax declined 1.32% in the fourth quarter, which was more than a full point below the quarterly target of 0.09% growth. The fourth quarter decline was largely attributed to comparing April 2015 receipts against a large audit payment received last year.



For further analysis, sales tax was broken down into seven sub-categories to determine where growth occurred. All seven categories experienced growth in FY15, although in the fourth quarter six of the seven categories experienced as least one month of decline and in June five of the seven categories experienced declines. Hotels and Restaurants was the only category to experience growth in all 12 months.

- **Retail**, the largest sales tax category, accounted for 50% of FY15 sales tax revenue. Retail was up seven of 12 months of the year. The audit payment that boosted April Sales Tax in FY14 resulted in a significant decline in retail this year by comparison and limited FY15 growth in retail to 1.4%.

FY15 GROWTH RATES		
Sales Tax Category	Growth Rate	% of Sales Tax Total
▲ Retail .....	1.4%	50.2%
▲ Hotels & Restaurants .....	5.9%	15.2%
▲ Services .....	4.8%	11.2%
▲ Wholesale .....	2.8%	10.0%
▲ Utilities.....	2.6%	6.8%
▲ Manufacturing .....	7.0%	4.6%
▲ Miscellaneous .....	3.1%	2.0%
▲ Total .....	2.9%	100%

- **Hotel and Restaurants** was the second largest sales tax category and had growth of 5.9% in FY15. This was the only category to experience growth in all 12 months and was largely attributed to restaurants.
- **Services** experienced growth the first eight months but declined in March, April and May. Increases in rentals and leasing were the primary contributor for annual growth of 4.8%.
- **Wholesale** had growth of 2.8% in FY15 with most wholesalers exhibiting moderate growth in the second and third quarters.

- **Utilities** had growth of 2.6% in FY15. Performance was impacted by weather and a mild, wet spring led to declines in April and June. In addition, low natural gas prices negatively impacted revenue from Oklahoma Natural Gas.
- **Manufacturing** had growth of 7.0% in FY15 with strong performance from September through February. In March, most segments reported decreases and the trend continued for three out of the last four months in FY15.
- **Miscellaneous**, the smallest sales tax category, had growth of 3.1% in FY15 that was the result of several new unclassified businesses remitting sales tax. As the Oklahoma Tax Commission properly classified businesses they were moved into one of the other categories.

For additional analysis, refer to the Monthly Sales Tax Reports on [www.okc.gov](http://www.okc.gov).

*Use Tax* Use tax, the third largest General Fund revenue category, was **\$1.7 million or (4.4%) below target** in FY15 but 4.2% above prior year. Use tax was broken into the same seven sub-categories as sales tax but the activity was much more sporadic. All of the categories experienced at least three months of declines but most were able to post growth for the year. Only the Miscellaneous category experienced a decline of 15.0% for the year.

*Franchise Fees* As a category, Franchise Fees were **\$1.1 million or 2.7% above target** in FY15 due primarily to growth in electric and cable (Cox and ATT).

Franchise Fee Revenue	Target	Revenue	Difference	%
Oklahoma Gas and Electric	20,871,378	21,592,041	720,663	3.5%
Oklahoma Natural Gas	5,850,055	5,753,172	(96,883)	(1.7%)
Oklahoma Electric Cooperative	1,284,345	1,364,456	80,111	6.2%
Cox Cable and Cox Fibernet	7,036,875	7,132,689	95,814	1.4%
City Utilities	4,642,980	4,543,178	(99,802)	(2.1%)
ATT	1,745,230	2,146,520	401,290	23.0%
Other Franchise Remitters	715,288	752,148	36,860	5.2%
<b>TOTAL FRANCHISE FEE</b>	<b>42,146,151</b>	<b>43,284,203</b>	<b>1,138,052</b>	<b>2.7%</b>

*Fines and Forfeitures* The Fines and Forfeitures category was **\$0.3 million (1.2%) below budget** in FY15 and 0.6% below FY14. The decline was wide spread with the majority of fine and forfeiture collections below budget in FY15.

*Admin. Charges* Administrative charges are the charges assessed to other City funds and entities for the administrative services provided by General Fund departments. This category had collections of \$18.1 million that were **\$0.2 million (0.9%) above target** in FY15 due to banking fees.

*Charges for Services* This revenue category had collections of \$35.3 million in FY15 and was **\$0.5 million or 1.4% below target**. The 3<sup>rd</sup> and 4<sup>th</sup> quarter payments from the GO Bond Program for services was not received when expected; had it been, the category

would have been \$2.1 million above target. Instead, those payments will be posted to FY16. Engineering-related fees for private development were \$1.2 million (55.7%) above target and 48.1% above prior year. Reimbursement for Police Overtime was \$0.6 million (505.2%) over target due to timing of payments. Parking Meter Fees were \$0.2 million or 15% above target and 12.5% above prior year.

*Licenses, Permits & Fees* Licenses, Permits, and Fees were **0.3% above target**, with collections of \$15.6 million in FY15. Building permit revenue was \$0.7 million (12.5%) over target in FY15 and 20.4% over FY14. Fire prevention fees were \$0.1 million (67.3%) above target and 48.2% above last year. The higher fire prevention fee revenue was attributed to an ordinance amendment made last February that clarified fees were per location or event, the addition of a new fee for expedited plan review and/or inspections, higher activity due to additional staffing, and increases in building activity. Growth for the Licenses, Permits and Fees category remained flat due to legislative changes that affected the abandoned building program. Projected registration revenue was not collected and a fine-based approach was implemented instead which will have an impact in the Fines and Forfeitures category when the program is fully implemented.

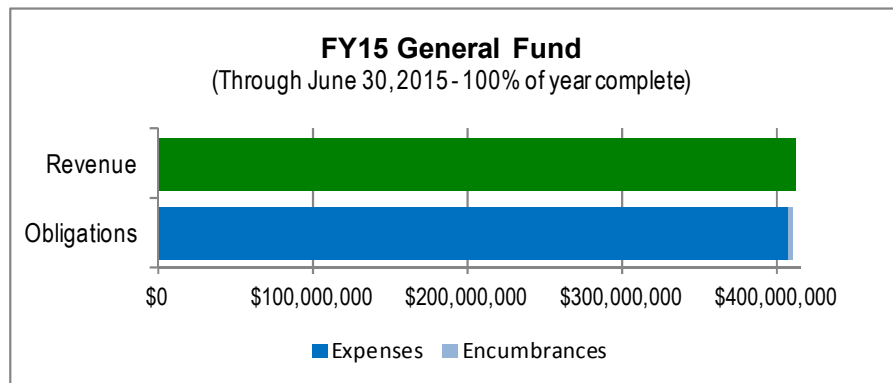
*Other Taxes* Other taxes include allocations from state taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category was **\$0.3 million or 2.3% above target** in FY15 and 3.6% above prior year. Growth was attributed to tobacco excise tax which had been projected to follow a two-year trend and decrease as more people substituted e-cigarettes for cigarettes. However, the trend appears to have run its course with tobacco tax leveling out at FY14 levels.

*Other Revenue and Operating Transfers In* These are both small revenue categories with combined collections of \$6.0 million that were **\$1.1 million or 23% above target** in FY15 and 9% above prior year. The increased revenue collection came from an increase in interest earnings, administrative fees associated with nuisance abatement enforcement conducted by the Development Services Department (\$0.6 million); and one-time revenue from escheated funds by Development Services (\$0.4 million).

**General Fund  
Obligations Fiscal  
Year 2015**

General Fund **Obligations totaled \$410.7 million** or 98.6% of the budget with 100% of the year complete.

Variances between collected revenue and



obligations are common during the fiscal year. Staff continuously monitors revenue and obligations to ensure the two stay relatively in sync as the year progresses. Obligations are reviewed for trends or spending that may be indicators for concern and then noted in the discussion below. Obligations include expenses that have been made, as well as encumbrances.

<b>General Fund Obligations By Category</b>						
(Through June 30, 2015 - 100% of the year complete)						
<b>Account Class</b>	<b>Annual Budget</b>	<b>YTD Expense</b>	<b>% of Budget Expensed</b>	<b>Encumbrance</b>	<b>Obligations</b>	<b>% of Budget Obligated</b>
Personal Services	301,439,321	300,036,878	99.5%	(449)	300,036,429	99.5%
Other Services	80,986,479	76,414,885	94.4%	1,398,351	77,813,236	96.1%
Supplies	10,262,834	8,561,655	83.4%	764,634	9,326,289	90.9%
Capital Outlay	254,789	163,214	64.1%	89,959	253,173	99.4%
Debt Service	10,000	4,085	40.9%	0	4,085	40.9%
Transfers	23,659,432	23,271,151	98.4%	0	23,271,151	98.4%
<b>Total</b>	<b>416,612,855</b>	<b>408,451,868</b>	<b>98.0%</b>	<b>2,252,495</b>	<b>410,704,363</b>	<b>98.6%</b>

\*Debt Service in the General Fund only pays for the bank paying agent charges associated with General Obligation Bonds. There is no debt paid from the General Fund.

*Personal Services* This category is significant since it represents 73% of the General Fund budget. As shown in the table above, Personal Services finished FY15 with **99.5% of the budget obligated**.

*Other Services* Obligations for FY15 were **\$77.8 million or 96.1% of budget**. The \$1.4 million encumbered is for annual services such as professional services and management contracts. A portion of encumbered funds may be carried over into FY16 for services that are crossing fiscal years as part of the Purchase Order Rollover and would be included in the first budget amendment for FY16.

*Supplies* Obligations for Supplies totaled **\$9.3 million or 90.9% of the budget** in FY15. The \$0.8 million encumbered may be carried over into FY16.

*Capital Outlay & Debt Service* These are both very small categories; Capital Outlay was obligated at **99.4%** and Debt Service at **40.9%**. Debt Service payments in the General Fund are for the paying agent fee paid to the banks that handle payments to bond holders. There is no debt in the General Fund.

*Transfers* In FY15 **\$23.3 million or 98.4%** of the transfer budget was expensed.

### **Special Revenue and Enterprise Funds Revenue**

The other Operating Funds of the City also have revenue targets, although, the nature of the various revenue sources means that each type of fund must be analyzed individually. A summary of the target and actual revenue in the most significant operating funds is listed in the table on the following page along with a discussion of the funds' revenue situation.

*Police, Fire and Zoo Sales Taxes*

The special revenue funds supported by the dedicated Police, Fire, and Zoo Sales Taxes were **0.1% above target** in FY15 for collected sales tax. Revenue collections from interest earnings, sale of City property, rental of communication towers, and reimbursement from federal grants for overtime accounted for the additional fund variances.

*Stormwater Drainage Utility Fund*

The Stormwater Drainage Utility Fund was **\$0.6 million or 3.3% above target** in FY15 due in large part to higher than projected utility fee revenue.

*Enterprise Funds*

Enterprise Funds are supported by transfers from public trusts and have established targets; however, transfers into the Enterprise Fund are based on cash flow needs for the operating fund. Below target revenue for Enterprise Funds is normally positive as it indicates operating expenses are below budgeted amounts and not as much revenue was needed. All four of the enterprise funds were below target in FY15.

Special Revenue and Enterprise Funds Revenue (Through June 30, 2015)				
Category/Fund	Target	Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	41,294,283	41,092,286	(201,997)	(0.5%)
Fire Sales Tax Fund	41,062,298	41,418,704	356,406	0.9%
Zoo Sales Tax Fund	13,667,230	13,677,852	10,622	0.1%
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	16,837,680	17,387,688	550,008	3.3%
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	16,909,301	16,633,392	(275,909)	(1.6%)
Parking/Transit Fund	2,552,970	2,100,168	(452,802)	(17.7%)
Solid Waste Fund	10,770,175	9,767,520	(1,002,655)	(9.3%)
Water/Wastewater Fund	85,170,389	78,561,919	(6,608,470)	(7.8%)
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>				
Emergency Management Fund	8,001,463	8,079,233	77,770	1.0%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	2,116,751	2,056,143	(60,608)	(2.9%)
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	6,865,353	6,883,041	17,688	0.3%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Motel Tax Fund	22,229,055	21,644,825	(584,230)	(2.6%)

*Emergency Management Fund*

The Emergency Management Fund was **\$0.1 million or (1.0%) above target** in FY15 due to an increase in VOIP fees.

*Court Administration and Training Fund*

This fund is primarily used as a pass-through of fees collected for the state, such as fees for the Automated Fingerprint Identification System (AFIS), the Council on Law Enforcement Education and Training (CLEET) and other state-mandated fees. The City retains a portion of the collected fees for administration of the program and for training. The fund was **\$0.1 million (2.9%) below budget** in FY15. This fund is closely related to Fine revenue in the General Fund, which was also below budget in FY15.

*Medical Services Program Fund* The Medical Services Program Fund contains revenue from the residential utility bill fee for EMSACare coverage, which provides emergency medical transport through EMSA. The fund was **on target** with revenue of \$6.8 million in FY15. During the annual open enrollment period in September there was minimal change in program participation.

*Hotel Motel Tax Fund* This fund was **\$0.6 million or (2.6%) below target** in FY15 due to the timing of transfers related to debt service payments and Hotel Motel Tax collections that were \$0.2 million (1.59%) below target.

### Special Revenue and Enterprise Funds Obligations

A summary of expenses in each of the significant operating funds that receive their funding from special revenue or enterprise operations are shown in the table below. All of the funds were at or below the expected level of 100% at the end of FY15.

Summary of Budget vs. Obligations in Other Operating Funds (Through June 30, 2015 - 100% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
<b>Sales Tax Supported Funds</b>					
Police Sales Tax Fund	40,578,651	38,786,673	158,888	38,945,561	96.0%
Fire Sales Tax Fund	41,663,184	38,029,886	1,006,963	39,036,849	93.7%
Zoo Sales Tax Fund	13,667,230	13,667,230	0	13,667,230	100.0%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	16,932,018	13,930,828	505,853	14,436,681	85.3%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	16,941,469	15,896,509	8,954	15,905,463	93.9%
Parking and Transit Fund	2,552,969	2,077,835	18,951	2,096,786	82.1%
Solid Waste Fund	11,770,566	9,879,959	39,662	9,919,621	84.3%
Water/Wastewater Fund	86,351,712	78,730,071	1,243,083	79,973,154	92.6%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	8,077,417	7,941,840	449	7,942,289	98.3%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,325,861	2,086,740	56,786	2,143,526	92.2%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,865,353	5,479,419	0	5,479,419	79.8%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	23,344,708	21,642,960	0	21,642,960	92.7%

### MAPS 3 Sales Tax

The intent of this report is to focus on revenue and expenditures in the operating funds of the City. However, due to the importance of the MAPS 3 fund a status of sales tax collections is included. Based on the original projections to reach \$777.1 million at the end of the tax period, the target through FY15 was for \$491.1 million in collections. The City had collected \$520.7 million resulting in the fund being \$29.6 million or **6.0% ahead of target**. The City Council designated \$9 million of over target revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately **\$20.6 million above target** after the adjustment.

## **Economic Factors**

- **Income and Employment.** Average Weekly Earnings (AWE) for the private sector in Oklahoma City represents wages plus other earnings, such as bonuses, and serves as an indicator of the purchasing power of the working population. The more people earn, the more they can spend on items subject to sales tax. The latest number available is a preliminary AWE of \$738.82 for June 2015 which was **4.7% below last year's figure**.

In June 2015, there were 25,513 more people employed in the Oklahoma City Metropolitan Statistical Area (MSA) than in June 2014. Unemployment, ticked up to 4.3% compared to 4.0% in June 2014 and up from the recent low of 3.3% experienced in March 2015. When AWE and employment are considered together it indicates more people were employed but earning less on average. While more people were employed, there was also an increase in those unemployed.

- **Rig Count.** The number of active drilling rigs provides a current measure of activity in the energy sector. Since 2006, the changes in sales tax revenue and rig count have moved in the same direction the majority of time. Due to the correlation between the two, staff has begun to monitor this indicator weekly as rig count may be a leading indicator to sales tax performance. Looking back to 2008, the lag between changes in rig count and changes in sales tax was approximately four months. The latest rig count was 106 for July 2015, which is down 50% from September 2014 when the average rig count for the state was 214, the highest monthly average for calendar year 2014. July was the sixth month in a row with a lower rig count than the same month in the prior year.

## **Summary**

The General Fund finished FY15 with overall **revenue growth of 2.4%** which was \$0.3 million or 0.1% above target. Sales Tax, which accounted for 53% of all General Fund revenue, had the largest monthly collection to date of \$20.1 million in February 2015 before it declined 1.32% in the fourth quarter. Engineering-related fees and Building Permits that had declined or remained flat in the third quarter, returned to growth in the fourth quarter and double digit growth for the year.

Based on this preliminary overview of revenues and expenses, the beginning unbudgeted Fund Balance for FY16 is projected to be \$66.8 million. With an FY16 General Fund budget of \$426.5 million that puts unbudgeted fund balance at 15.7% to begin the year. That is above the City's policy to maintain an unbudgeted fund balance of 8-15% by \$3.0 million.



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