



# City Manager Report

## The City of OKLAHOMA CITY

**NO:** 1064  
**DATE:** AUGUST 29, 2017  
**TO:** THE MAYOR AND MEMBERS OF THE CITY COUNCIL  
**SUBJECT:** INTERIM FINANCIAL REPORT FOR FISCAL YEAR 2017

This interim report is a budget report to provide a preliminary look at the City's finances for Fiscal Year 2017 which ended on June 30, 2017. This report has not been audited.

### Summary

The preliminary figures in the General Fund for Fiscal Year 2017 (FY17) show that revenue exceeded expenditures by \$0.4 million (0.1%). While revenue was down 2.2% overall for the year, a combination of improved revenue collections in the last two months of the fiscal year and measures taken to control expenses in FY17 including a 1.25% mid-year budget reduction for General Fund Departments, a reduction in capital spending and contingency, and a continued hiring freeze made it possible to maintain our reserve levels.

Three economic indicators improved significantly beginning in January 2017 which may have influenced the revenue growth we began to see in May 2017. **Average Weekly Earnings** showed growth all year long but **averaged 11% growth** in the 2<sup>nd</sup> half of the year with an average weekly wage of \$824. The labor force and number employed also returned to growth beginning in January and continued through the second half of the fiscal year. The **number employed averaged monthly growth of 0.8%** when compared to the same month in FY16; in June 2017 that equated to 4,800 more persons employed when compared to June 2016. The change in active drilling rigs in Oklahoma also turned to growth in January and by June 2017, **rig counts were up 128%** compared to June 2016.

### General Fund Revenue Fiscal Year 2016-2017 (FY17)

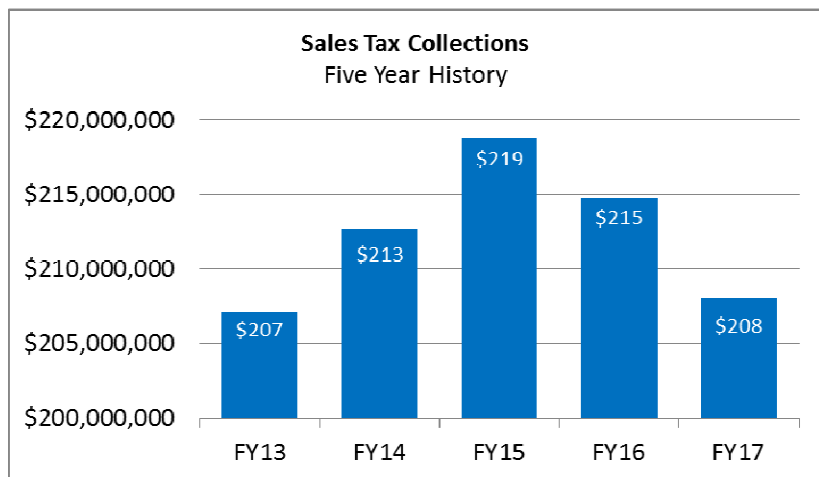
General Fund revenue was **\$7.8 million below the amended budget** and 2.2% below FY16 collections. Declines were wide spread across the General Fund categories with seven of the 10 revenue categories below budget in FY17. However, revenue improved in the last quarter of the fiscal year, more specifically, growth returned to Sales and Use Tax in the final two months of the fiscal year and an early payment from Oklahoma County for the Resale Release program added \$1.0 million to the Other revenue category in June.

**GENERAL FUND**  
**\$7.8 Million**  
**BELOW AMENDED BUDGET**

GENERAL FUND REVENUE BY CATEGORY*				
(Through June 30, 2017 - 100% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	208,949,018	208,087,104	(861,914)	-0.4%
Use Tax	37,900,276	35,218,294	(2,681,982)	-7.1%
Franchise Fee	41,932,247	41,136,725	(795,522)	-1.9%
Charges for Services	36,721,977	35,065,359	(1,656,618)	-4.5%
Fines & Forfeitures	22,998,502	22,103,255	(895,247)	-3.9%
Administrative Charges	22,655,578	23,243,770	588,192	2.6%
Licenses, Permits, and Fees	14,539,370	13,224,528	(1,314,842)	-9.0%
Other Taxes	12,123,948	11,271,341	(852,607)	-7.0%
Other Revenue	4,204,783	4,787,033	582,250	13.8%
Operating Transfers In	175,000	230,788	55,788	31.9%
<b>TOTAL GENERAL FUND*</b>	<b>402,200,699</b>	<b>394,368,195</b>	<b>(7,832,504)</b>	<b>-1.9%</b>

\*Excludes budgeted Fund Balance.

*Sales Tax* Sales tax was the single largest revenue source in the General Fund and accounted for 53% of FY17 General Fund revenue. Sales Tax ended the year **\$0.9 million below amended budget** and 3.1% below prior year.



Declines were widespread across sales tax categories in FY17:

- **Retail**, the largest sales tax category, accounted for 50% of sales tax collections and declined 3.5%. Building Materials and Food and Beverage accounted for 46% of the retail decline.
- **Hotel and Restaurants**, the second largest sales tax category, ended the long running trend of monthly growth in FY17 and posted sporadic growth throughout the year. Hotels accounted for 15% of collections in this category and declined 1.5% in FY17; restaurants comprised the remaining 85% of the collections and had growth of 0.36%. Overall, the category finished FY17 with growth of 0.07%.
- **Services** accounted for 12% of collections and declined 4.8%.
- **Wholesale** represented 9% of collections and declined 6.65%.
- **Utilities**, which is largely dependent on weather and fuel prices, grew 3.87%.
- **Manufacturing**, one of the smaller sales tax categories at only 4% of collections, declined 9.14%.

- **Miscellaneous**, the smallest sales tax category at less than 1% of collections, declined 12%. The category is primarily comprised of remittances from unclassified businesses. As businesses are properly classified future remittances move to one of the other categories.

*Use Tax* Use tax, the third largest budgeted General Fund revenue category, experienced FY17 collections of \$35.2 million which was **\$2.7 million below budget** but 17.3% above last year. Fiscal year growth was due to a large refund made in FY16; when FY16 was normalized, the category declined 3.85% in FY17 despite the addition in May and June of Amazon.com.

*Fines and Forfeitures* The Fines and Forfeitures category had FY17 collections of \$22.1 million which was **\$0.9 million below budget** and 6.0% below prior year. Cases filed with the Court were down 8.0% compared to FY16.

*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 FY17 collections of \$23.2 million and was **\$0.6 million above budget** and 28.8% above prior year. Growth was due to the reclassification of some revenue accounts from the Transfers category to the Administrative Charges category and a new agreement with the Oklahoma City Water Utilities Trust (OCWUT) in which they pay the City for mowing, liter, landscape and permit selling services provided by the Parks Department.

*Charges for Services* Service Charges had FY17 collections of \$35.1 million. The category was **\$1.7 million below budget** and 0.5% below prior year. Below budget performance was widespread across the various accounts. Payments from GO Bonds for administrative services were \$0.6 million below budget; Engineering Fees for Private Development were \$0.3 million below budget; and Parks Fees were \$0.2 million below budget.

*Franchise Fees* The Franchise Fees category had FY17 collections of \$41.1 million which was **\$0.8 million below budget** but 0.4% above prior year. Franchise fees from Cable providers were \$1.0 million below budget and 7.7% below prior year and may be due to a national trend of cable subscribers cancelling pay TV services and opting for online video services.

*Licenses, Permits & Fees* The Licenses, Permits, and Fees category had FY17 collections of \$13.2 million which was **\$1.3 million below budget** and 5.2% below prior year. The decline was largely attributed to building related permit revenue that was \$1.0 million below budget; Police Alarm Fees that were \$0.1 million below budget; and, Sidewalk and Paving Fees that were \$0.1 million below budget.

*Other Taxes* Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category had FY17 collections of \$11.3

million which was **\$0.9 million below budget** and 2.7% below prior year. The decline was attributed to excise tax on tobacco products and vehicle tax.

*Other* These Other Revenue and Operating Transfers In categories had combined FY17 collections of \$5.0 million, which was **\$0.6 million above budget**. The growth was attributed to the timing of a payment from Oklahoma County for Resale Release.

### General Fund Obligations Fiscal Year 2016-2017

**General Fund expenses totaled 97.0%** of budget or \$393.4 million. While the table below shows \$1.3 million in encumbrances, the final total that will be carried in to FY18 (rolled over) will be about \$0.5 million. The difference is due to some encumbrances, such as utilities or supplies, coming in lower than expected. Due to the trend of lower revenue growth experienced earlier in the year, several measures were taken to control expenses including a mid-year budget cut of 1.25% for General Fund Departments; a \$2.25 million reduction in capital spending; a \$2.8 million reduction in General Fund contingency; and a hiring freeze. These measures were successful in curbing expenses and brought total expenses down to just below revenue received.

General Fund Obligations by Category (Through June 30, 2017 - 100% of the year complete)						
Account Class	Annual Budget	Expenses	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	298,951,481	295,750,472	98.9%	515	295,750,987	98.9%
Other Services	76,911,501	70,495,697	91.7%	949,363	71,445,060	92.9%
Supplies	8,279,718	6,292,921	76.0%	365,873	6,658,794	80.4%
Capital Outlay	162,759	156,933	96.4%	0	156,933	96.4%
Debt Service*	10,000	4,385	43.9%	0	4,385	43.9%
Transfers	21,130,045	20,713,874	98.0%	0	20,713,874	98.0%
<b>Total</b>	<b>405,445,504</b>	<b>393,414,283</b>	<b>97.0%</b>	<b>1,315,751</b>	<b>394,730,034</b>	<b>97.4%</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* The Personal Services category is significant since it represents 73% of the General Fund budget. As shown in the table above, the budget for **Personal Services was 98.9% expended** in FY17. A hiring freeze implemented November 9, 2015 was in effect for the entire fiscal year and contributed to the large savings.

*Other Services* The **Other Services budget was expended at 91.7%**.

*Supplies* The **Supplies budget was expended at 76.0%** which was well below budget.

*Capital Outlay & Debt Service* The small **Capital Outlay budget was 96.4% expended** while the **Debt Service Fund was expended at 43.9%**.

*Transfers* The **Transfers budget was 98.0% expended**.

## Special Revenue and Enterprise Funds Revenue

A summary of the budget and actual revenue in the most significant operating funds is listed in the table below, followed by discussion of the funds' revenue situation.

Special Revenue and Enterprise Funds Revenue *				
(Through June 30, 2017)				
Category/Fund	YTD Budget	YTD Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	41,174,747	39,348,528	(1,826,219)	(4.4%)
Fire Sales Tax Fund	41,049,189	39,198,244	(1,850,945)	(4.5%)
Zoo Sales Tax Fund	13,910,703	13,008,756	(901,947)	(6.5%)
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	16,997,096	17,127,045	129,949	0.8%
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	17,602,492	15,914,074	(1,688,418)	(9.6%)
Parking/Transit Fund	4,099,079	3,890,301	(208,778)	(5.1%)
Solid Waste Fund	10,830,749	10,217,208	(613,541)	(5.7%)
Water/Wastewater Fund	88,144,683	80,529,557	(7,615,126)	(8.6%)
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>				
Emergency Management Fund	8,915,001	8,475,382	(439,619)	(4.9%)
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	1,845,893	1,996,867	150,974	8.2%
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	6,843,923	6,919,641	75,718	1.1%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Tax Fund	20,905,008	20,741,174	(163,834)	(0.8%)

*Police, Fire and Zoo Sales Taxes* Sales tax was **4.6% below budget** and 3.1% below prior year in the special revenue funds supported by the dedicated Police, Fire, and Zoo Sales Taxes. Minimal revenue collections from interest earnings, sale of city property, leases of City property, and reimbursement from federal grants for overtime accounted for the additional fund variances.

*Stormwater Drainage Utility Fund* The Stormwater Drainage Utility Fund was **\$0.1 million above budget**. Utility fees were 1.5% below budget but they were offset by reimbursements from FEMA and ODOT.

*Enterprise Funds* The **enterprise funds were all below budget** on transfers from their respective trust for the year indicating that all funds were able to operate at a level below their total budgets.

*Emergency Management Fund* The Emergency Management Fund supports the E-911 system for Oklahoma City. Revenue was **\$0.4 million below budget** but 11.2% above prior year. The passage of a \$0.25 per line fee increase for E911 that went into effect mid-year put telephone tariffs \$0.6 million above budget and 17.7% above prior year. Tariff growth was offset by payments from the General Fund to support operations that were \$0.8 million less than budgeted. Revenue shortfalls in small categories made up the remaining \$0.2 million.

*Court Administration and Training Fund* The Court Administration and Training 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 **\$0.2 million above budget** and 3.6% above FY16.

*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 **\$0.1 million above budget** with revenue of \$6.9 million. September was the annual open enrollment period and historically program participation has remained flat.

*Hotel Tax Fund* This fund was **\$0.2 million below budget** due to Hotel Tax collections that were \$0.2 million below budget and 3.26% below prior year.

### 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. Obligations in each fund were below budget in FY17.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through June 30, 2017 - 100% of the year complete)					
Fund	Annual Budget	YTD Expense	YTD Encumbrance	YTD Obligations	Pct
<b>Sales Tax Supported Funds</b>					
Police Sales Tax Fund	42,165,878	40,401,092	152,001	40,553,093	96.2%
Fire Sales Tax Fund	44,908,396	39,194,366	302,889	39,497,255	88.0%
Zoo Sales Tax Fund	14,188,917	13,008,756	0	13,008,756	91.7%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	17,234,879	14,266,051	210,273	14,476,324	84.0%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	17,602,492	16,682,512	11,574	16,694,086	94.8%
Parking and Transit Fund	4,099,079	3,711,955	181	3,712,136	90.6%
Solid Waste Fund	11,830,749	9,849,099	60,803	9,909,902	83.8%
Water/Wastewater Fund	89,553,472	80,522,836	957,790	81,480,626	91.0%
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>					
Emergency Management Fund	9,377,816	8,324,811	0	8,324,811	88.8%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,345,465	1,845,040	55,102	1,900,142	81.0%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,853,081	5,845,034	0	5,845,034	85.3%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	22,412,486	21,085,304	0	21,085,304	94.1%

### 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 projection through FY17 was for \$704.5 million in sales tax collections. The City had


collected \$732.0 million resulting in sales tax collections being \$27.5.9 million or **3.9% ahead of budget**. These numbers are sales tax collections only and do not reflect the fund balance which includes interest and other revenue earnings.

### **Economic Factors**

- **Income and Employment.** Average Weekly Earnings (AWE) for the private sector in the Oklahoma City metropolitan area represents wages plus other earnings, such as bonuses, for production and non-supervisory workers 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 indicator experienced growth each month in the fiscal year but really took off in the second half of the fiscal year when the average weekly wage surpassed and stayed at more than \$800 per week and averaged monthly growth of 11.0% when compared to the same month in the prior fiscal year. In June 2017, the preliminary AWE was \$815.08 which was **7.5% above June 2016**.

In the Oklahoma City Metropolitan Statistical Area (OKC-MSA) the labor force and employment both returned to growth in the second half of the fiscal year. The Labor Force was up 0.4% in June 2017 compared to June 2016 and the number employed was up 4,863 or 0.8% in June 2017 compared to June 2016. **June Unemployment was 4.4%**. When AWE and employment are considered together it indicates more people were employed and earning more on average.

- **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 monitored 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. After 23 consecutive months of decline, monthly rig counts returned to growth in the second half of the fiscal year. In June 2017 the **rig count was 130, up 127%** from June 2016.



James D. Couch  
City Manager