



# City Manager Report

## The City of OKLAHOMA CITY

**NO: 480**

**DATE: AUGUST 26, 2014**

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

**SUBJECT: INTERIM FINANCIAL REPORT THROUGH JUNE 30, 2014**

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 2014. The Accounting Services Division has not yet finished their review and the independent auditor has not yet provided their opinion on City finances for Fiscal Year 2014. This report has not been audited but is intended to give a preliminary look at revenues and expenses in Fiscal Year 2014.

### General Fund Revenue Fiscal Year 2013-2014

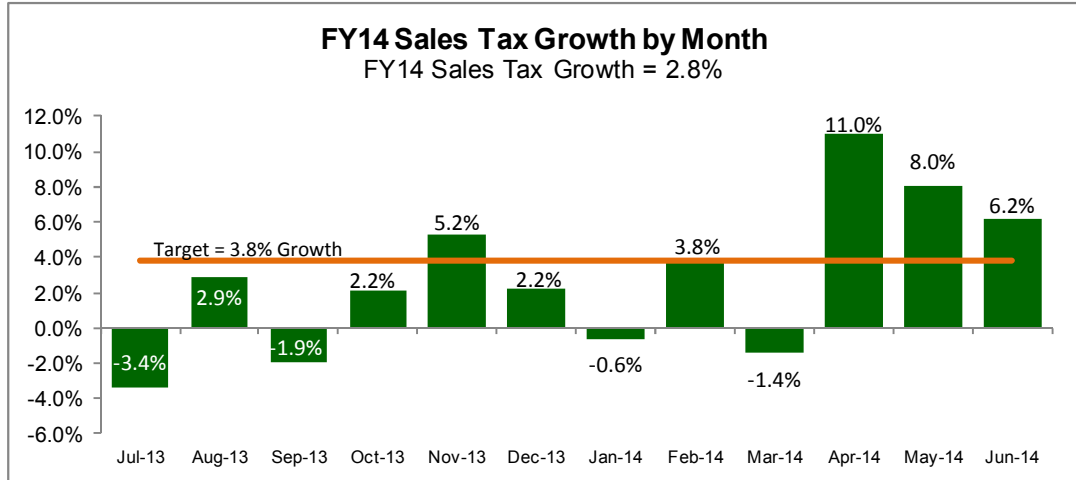
For Fiscal Year 2014 General Fund recurring revenue totaled **\$402.7 million**, which was **\$4.9 million (1.2%) above target**. This represents an increase over last year of \$13.3 million (3.4%).

Of the 10 revenue categories that make up the General Fund, half finished the year above target. Overall growth in General Fund Revenue was attributed to Fines and Forfeitures, which was \$2.9 million (12.5%) above target; Use Tax collections and Service Charges which were both \$1.7 million (4.9%) above target; and Franchise Fees which were \$1.1 million (2.8%) above target. Sales Tax, the largest recurring revenue, was \$2.2 million (1.0%) below target.

GENERAL FUND REVENUE BY CATEGORY*				
(Through June 30, 2014 - 100% of the year complete)				
Category	Target	Actual	Difference	Percentage
Sales Tax	214,922,702	212,698,181	(2,224,521)	(1.0%)
Use Tax	34,635,859	36,343,310	1,707,451	4.9%
Franchise Fee	40,633,933	41,766,924	1,132,991	2.8%
Charges for Services	34,975,422	36,697,440	1,722,018	4.9%
Fines & Forfeitures	23,300,713	26,218,712	2,917,999	12.5%
Administrative Charges	18,114,340	17,636,096	(478,244)	(2.6%)
Licenses, Permits, and Fees	13,952,585	14,387,906	435,321	3.1%
Other Taxes	11,785,544	11,487,461	(298,083)	(2.5%)
Other Revenue	2,738,853	2,732,634	(6,219)	(0.2%)
Operating Transfers In	2,771,516	2,751,282	(20,234)	(0.7%)
<b>TOTAL GENERAL FUND*</b>	<b>397,831,467</b>	<b>402,719,947</b>	<b>4,888,480</b>	<b>1.2%</b>

*Sales Tax* Sales tax was \$1 million (6.2%) above June in the prior year, finishing out the fourth quarter with strong growth. However, the fourth quarter was not enough to offset the

disappointing performance in the first three quarters of the fiscal year in which sales tax only met or exceeded target twice. Projected growth for sales tax for the year was 3.8% but it finished below target at 2.8% growth. Sales tax is the largest General Fund category and accounted for 53% of revenue in FY 2014.



For analysis, sales tax is broken down into seven sub-categories with the average growth rate for the fourth quarter depicted in the table at the right. Retail averaged growth of 7.1% during the fourth quarter which included a large one-time payment that was the result of an audit. Building materials,

Sales Tax Category	Growth Rate	% of Sales Tax Total
▲ Retail .....	7.1%	50.1%
▲ Hotels & Restaurants .....	5.5%	15.5%
▲ Services .....	7.1%	11.1%
▲ Wholesale .....	10.6%	10.3%
▲ Utilities.....	22.6%	6.8%
▼ Manufacturing .....	(2.3%)	4.6%
▲ Miscellaneous .....	16.0%	1.7%
▲ <b>Total</b> .....	<b>8.4%</b>	<b>100%</b>

lawn and garden and food stores also contributed to retail sales tax growth in the fourth quarter. Hotel and Restaurants were up 5.5% for the quarter; Services were up 7.1% for the quarter with a strong performance in April from rental and leasing; Wholesale was up 10.6%; Utilities was up 22.6% with growth early in the quarter from natural gas and electric sales; Miscellaneous would have been down for the quarter due to the reclassification of businesses to other categories, but a large audit refund given in the previous year pushed the average to 16% growth. Manufacturing experienced sporadic growth in the fourth quarter that, when averaged, resulted in a decline of 2.3%. For additional analysis, refer to the monthly sales tax reports under the Budget and Finance tab on the City's website at [www.okc.gov](http://www.okc.gov).

*Use Tax* Use Tax was **\$1.7 million (4.9%)** above **target** for FY 2014 and 5.8% above prior year. In the last quarter, there was strong growth in two of the three months. June experienced a decline across five of the seven sub-categories and was 11.9% below target and 11.2% below prior year.

*Franchise Fees* As a category, Franchise Fees were **\$1.1 million (2.8%) above target** at the end of FY 2014 with most remitters above target. Oklahoma Natural Gas was \$1.4 million (28%) above target due to colder-than-normal weather increasing demand for natural gas, one of most widely used heating sources. Also performing well was Cox Cable which was \$0.2 million (2.7%) above target and AT&T which was 9.5% above target.

Oklahoma Gas and Electric (OG&E), the largest remitter in this category, was below target by \$0.6 million (2.9%) for the year due to milder summer temperatures that resulted in lower electric sales.

Franchise Fee Revenue	Target	Revenue	Difference	%
Oklahoma Gas and Electric	21,180,382	20,561,070	(619,312)	(2.9%)
Oklahoma Natural Gas	4,760,970	6,114,149	1,353,179	28.4%
Oklahoma Electric Cooperative	1,192,903	1,278,709	85,806	7.2%
Cox Cable and Cox Fibernet	6,745,075	6,927,674	182,599	2.7%
City Utilities	4,494,061	4,400,770	(93,291)	(2.1%)
ATT	1,622,865	1,776,378	153,513	9.5%
Other Franchise Remitters	637,677	708,173	70,496	11.1%
<b>TOTAL FRANCHISE FEE</b>	<b>40,633,933</b>	<b>41,766,924</b>	<b>1,132,991</b>	<b>2.8%</b>

*Fines and Forfeitures* The Fines and Forfeitures category was the best performing General Fund revenue category in FY 2014 coming in **\$2.9 million (12.5%) above target** with collections of \$26.2 million. The majority of the growth came from court costs which were \$1.4 million (14.3%) above target; traffic fines which were \$0.9 million (11.4%) above target; parking fines which were \$0.4 million (17.6%) above target; and jury division fines which were \$0.2 million (14.3%) above target. The increases are attributed to the Police Department's emphasis on targeted traffic enforcement programs, reduced vacancies and the use of overtime to increase police presence in high crime areas.

*Admin. Charges* Administrative charges were **\$0.5 million (2.6%) below target** due to reductions that were made in certain chargeback accounts for internal services after the budget was adopted.

*Charges for Services* This category had total revenue of \$36.7 million in FY 2014 and was **\$1.7 million (4.9%) above target**. Engineering-related Fees for private development were \$0.8 million (48%) above target and 41% above prior year. Parking meter fees were \$0.3 million (43.5%) above target due to an increase in the number of meters and customers opting to reserve the maximum time on the meter; and, Medicare Part D was \$0.4 million (100%) above target due to timing of reimbursements (FY13 reimbursement received in FY14).

*Licenses, Permits and Fees* Licenses, Permits, and Fees were **\$0.4 million (3.1%) above target**, with collections totaling \$14.4 million. The main drivers of growth were building-related permits that were \$0.2 million (2.9%) over target and \$0.5 million (6.1%) over last year. Growth for building-related permits slowed towards the end of the year, with building permits declining an average of 6.4% in the last quarter when

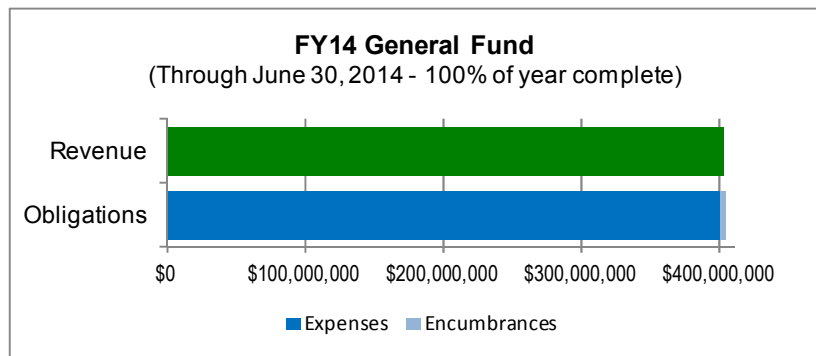
compared to prior year; electrical increased an average of 5% and plumbing increased an average of 13.6% in the last quarter when compared to prior year.

*Other Taxes* Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category was **below target by \$0.3 million (2.5%)** for the year, with collections of \$11.5 million. The Excise Tax on Tobacco received from the State was \$0.5 million (9.5%) below target and 6.4% below the previous year. The decline in revenue was attributed to a fewer smokers and people substituting e-cigarettes for cigarettes. Vehicle tax was \$0.3 million (6%) above target and 9.9% above the previous year and was attributed to vehicle replacement. Some studies estimate the average age of vehicles to be at 11 years or more.

*Other Revenue and Operating Transfers In* These are both small revenue categories with combined collections of \$5.5 million in FY 2014. Revenue in both categories was flat for the year.

**General Fund Obligations Fiscal Year 2013-2014**

General Fund Obligations totaled **\$404.5 million** or 98.4% of budget at the end of FY 2014.



Staff monitored revenue and obligations throughout the year to ensure the two stayed relatively in sync. Obligations include expenses that have been made, as well as encumbrances. As the table on the following page indicates, all categories of expenses finished the year within the budgeted levels. Any remaining encumbrances will be paid out in the next few weeks as the fiscal year is closed, rolled over to the current fiscal year, or released and applied to fund balance.

<b>General Fund Obligations By Category</b> (Through June 30, 2014 - 100% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	290,117,016	286,864,961	98.9%	71,768	286,936,729	98.9%
Other Services	77,050,034	72,440,982	94.0%	2,850,721	75,291,703	97.7%
Supplies	9,911,891	8,100,614	81.7%	903,838	9,004,452	90.8%
Capital Outlay	67,071	41,923	62.5%	11,128	53,051	79.1%
Debt Service	10,000	4,068	40.7%	0	4,068	40.7%
Transfers	33,996,837	33,255,745	97.8%	0	33,255,745	97.8%
<b>Total</b>	<b>411,152,849</b>	<b>400,708,292</b>	<b>97.5%</b>	<b>3,837,455</b>	<b>404,545,747</b>	<b>98.4%</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.

### **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 chart below with discussion of individual funds before and after.

*Police, Fire and Zoo Sales Taxes* The special revenue funds supported by the dedicated Police, Fire, and Zoo Sales Taxes were 1.0% below target for the year in collected sales tax due to lower than anticipated sales tax collections. Minimal revenue collections from interest earnings, sale of City property and rental of communication towers account for the additional variances in the funds.

*Stormwater Drainage Utility Fund* The Stormwater Drainage Utility Fund was above target by \$0.8 million (4.8%) in FY 2014 due to higher than projected utility fee revenue and permit 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 is needed. All four of the enterprise funds finished below target.

*Emergency Management Fund* The Emergency Management Fund was below target by \$0.8 million (9.2%) at the end of FY 2014 due primarily to lower transfers from the General Fund because operating costs were less than expected. Revenue from telephone tariffs declined \$0.1 million as more of the population gave up their land lines, which also contributed to revenue finishing below target.

Special Revenue and Enterprise Funds Revenue (Through June 30, 2014)				
Category/Fund	Target	Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	40,430,466	39,937,700	(492,766)	(1.2%)
Fire Sales Tax Fund	40,331,385	39,998,950	(332,435)	(0.8%)
Zoo Sales Tax Fund	13,551,678	13,294,614	(257,064)	(1.9%)
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	15,916,905	16,678,257	761,352	4.8%
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	17,721,726	16,672,025	(1,049,701)	(5.9%)
Parking/Transit Fund	2,409,554	2,279,752	(129,802)	(5.4%)
Solid Waste Fund	10,817,854	10,309,816	(508,038)	(4.7%)
Water/Wastewater Fund	85,099,733	81,132,647	(3,967,086)	(4.7%)
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>				
Emergency Management Fund	8,398,087	7,627,510	(770,577)	(9.2%)
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	1,878,704	2,070,202	191,498	10.2%
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	6,802,643	6,880,440	77,797	1.1%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Motel Tax Fund	20,371,003	20,512,582	141,579	0.7%

*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 \$0.2 million (10.2%) above target with revenue collections of \$1.9 million. This fund is closely related to Fine revenue in the General Fund, which was also over target for the year.

*Medical Services Program Fund* The Medical Services Program Fund contains revenue from the residential utility bill fee for EMSA TotalCare coverage and was **\$0.1 million (1.1%) above target** due to a slight increase in enrollment during the year.

*Hotel Motel Tax Fund* This fund was \$0.1 million (0.7%) above target for FY 2014 with growth in Hotel Motel Tax collections that was 7.25% over the previous year. Total tax collections were \$14.1 million.

### 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 on the next page. All of the funds were below budget for FY 2014.

<b>Summary of Budget vs. Obligations in Other Operating Funds</b>					
(Through June 30, 2014 - 100% of the year complete)					
<b>Fund</b>	<b>Budget</b>	<b>Expense</b>	<b>Encumbrance</b>	<b>Obligations</b>	<b>Pct</b>
<b>Sales Tax Supported Funds</b>					
Police Sales Tax Fund	38,824,384	36,621,756	115,239	36,736,995	94.6%
Fire Sales Tax Fund	44,610,180	39,637,475	451,620	40,089,095	89.9%
Zoo Sales Tax Fund	13,551,678	13,293,622	0	13,293,622	98.1%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	15,850,296	13,601,226	625,991	14,227,217	89.8%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	17,777,300	16,249,347	188,968	16,438,315	92.5%
Parking and Transit Fund	2,469,554	2,329,581	0	2,329,581	94.3%
Solid Waste Fund	11,818,583	10,321,973	62,075	10,384,048	87.9%
Water/Wastewater Fund	86,220,653	80,624,107	948,384	81,572,491	94.6%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	8,398,087	7,847,433	0	7,847,433	93.4%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,352,693	2,068,951	30,900	2,099,851	89.3%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,802,643	6,535,129	0	6,535,129	96.1%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	21,432,478	21,217,461	0	21,217,461	99.0%

### MAPS 3 Sales Tax Fund

The intent of this report is to focus on revenue and expenditures on the operating funds of the City. However, due to the importance of the MAPS 3 Sales Tax Fund, an update on total revenues received to date is also provided. Based on the original projections to reach \$777.1 million at the end of the tax period, the target through the end of FY 2014 was \$389 million in collections. The City had collected \$411.4 million resulting in the fund being \$22.4 million or 5.4% ahead of target.

### Summary

The General Fund gained substantial ground in the last quarter of FY 2014 with strong growth in Sales Tax and Use Tax. Service charge payments and fines both had strong growth all year. Lower average weekly earnings and a lack of consumer confidence in the local economy had a significant impact on sales and use tax in FY 2014. Lower than anticipated Sales Tax collections in the first three quarters of year were the main reason for under target performance in the General Fund and overall General Fund revenue growth of 3.4%.

This preliminary review shows General Fund revenues exceeded expenses by \$2.0 million in FY 2014. The General Fund began FY 2014 with Fund Balance of \$69.1. Adding in the additional \$2.0 million means that the General Fund will begin FY 2015 with about \$71.0 million in total Fund Balance. In percentage terms that will mean that the General Fund will have approximately 16.5% in unbudgeted Fund Balance at the beginning of FY 2015.



James D. Couch  
City Manager