



City Manager Report

The City of
OKLAHOMA CITY

NO: 627

DATE: APRIL 28, 2015

TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL

SUBJECT: INTERIM FINANCIAL REPORT THROUGH MARCH 31, 2015

This interim report is a budget report to provide the Mayor and City Council with a preliminary look at the City's finances through the third quarter. This report has not been audited.

General Fund Revenue Fiscal Year 2014-2015 (FY15)

General Fund revenues were \$4.4 million or 1.4% above target through March 2015 and \$13.7 million or 4.6% above FY14 collections for same time period. Nine of the ten revenue categories that make up the General Fund were above target as shown in the table below. Only Use Tax was below target.



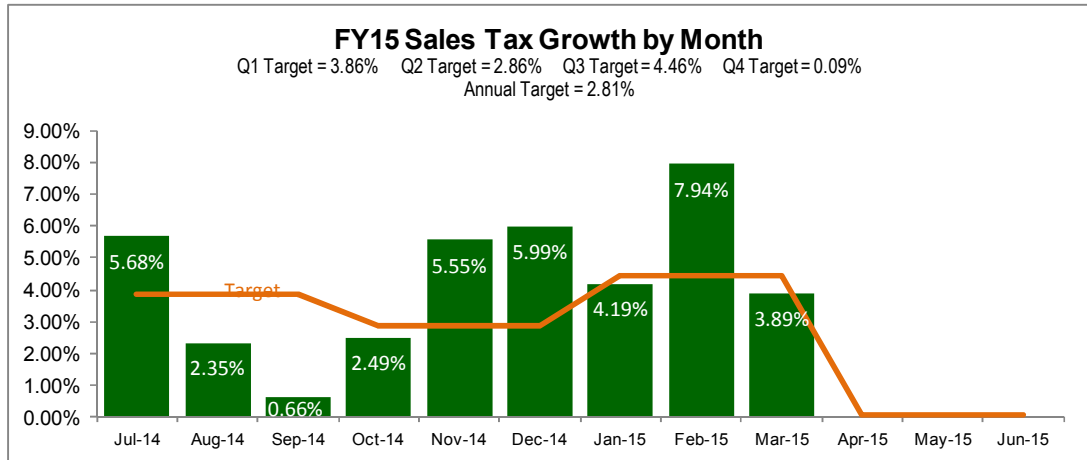
GENERAL FUND REVENUE BY CATEGORY*				
(Through March 31, 2015 - 75% of the year complete)				
Category	Target	Actual	Difference	Percentage
Sales Tax	165,097,214	166,013,356	916,142	0.6%
Use Tax	29,827,293	29,678,671	(148,622)	(0.5%)
Franchise Fee	32,483,839	33,339,376	855,537	2.6%
Charges for Services	24,739,299	25,187,693	448,394	1.8%
Fines & Forfeitures	20,192,297	20,217,462	25,165	0.1%
Administrative Charges	14,601,391	14,615,959	14,568	0.1%
Licenses, Permits, and Fees	11,289,233	11,663,321	374,088	3.3%
Other Taxes	8,433,962	8,682,135	248,173	2.9%
Other Revenue	1,936,466	2,704,984	768,518	39.7%
Operating Transfers In	1,618,310	2,481,014	862,704	53.3%
TOTAL GENERAL FUND*	310,219,304	314,583,971	4,364,667	1.4%

*Excludes budgeted Fund Balance.

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

Sales Tax Sales tax is the single largest revenue source in the General Fund and accounted for 53% of year-to-date (YTD) revenue.

In FY15, sales tax targets were adjusted quarterly to reflect the anticipated growth cycle, with the third quarter projected to experience the strongest growth. Sales Tax grew at 5.42% in the third quarter, almost a full point above the quarterly target of 4.46%. February was exceptional with the largest sales tax remittance ever at \$20.1 million. Growth in the second quarter was 4.64% and growth in the first quarter was 2.85%. Year-to-date sales tax growth was 4.3%, ahead of target by 0.6%.



For further analysis, sales tax is broken down into seven sub-categories to determine where growth is occurring. All seven categories have experienced YTD growth.

- **Retail**, the largest sales tax category, accounted for 50% of YTD sales tax revenue. Declines in August, September and October hampered YTD growth which was 2.7%.
- **Hotel and Restaurants**, the second largest sales tax category, had YTD growth of 6.5% and was the only category to experience growth in all nine months of this fiscal year.
- **Services** experienced growth the first eight months but declined (2.4%) in March due, in part, to a refund. Increases in rentals and leasing were the primary contributor for YTD growth of 7.6%.
- **Wholesale** had YTD growth of 4.0% with most wholesalers exhibiting moderate growth in the second and third quarters.
- **Utilities** had YTD growth of 5.2% and performed well in the second and third quarter after a slow start.

YTD GROWTH RATES		
Sales Tax Category	Growth Rate	% of Sales Tax Total
▲ Retail	2.7%	50.2%
▲ Hotels & Restaurants	6.0%	15.0%
▲ Services	7.6%	11.2%
▲ Wholesale	4.0%	9.9%
▲ Utilities	5.2%	6.9%
▲ Manufacturing	12.1%	4.7%
▲ Miscellaneous	1.8%	2.2%
▲ Total	4.3%	100%

- **Manufacturing** had YTD growth of 12.1% with strong growth from September through February. In March, most segments reported decreases and the category declined (7.9%) compared to March 2014. Manufacturing accounted for 4.7% of all sales tax revenue.
- **Miscellaneous**, the smallest sales tax category, contributed 2.2% of all sales tax remittances. The category was in decline seven of the nine months due to the Oklahoma Tax Commission properly classifying businesses and moving them into one of the other categories. Year-to-date growth was 1.8% and was the result of several new unclassified businesses remitting sales tax in mining.

For additional analysis, refer to the Monthly Sales Tax Reports on www.okc.gov.

Use Tax Use tax, the third largest General Fund revenue category, was **\$0.1 million or (0.5%) below target** but 8.5% above prior year at the end of the third quarter. Year-to-date collections were \$29.7 million. Use tax is broken into the same seven sub-categories as sales tax but the activity is much more sporadic. Six of the seven categories had YTD growth at the end of the third quarter; however, most sub-categories were in decline in March.

Franchise Fees As a category, Franchise Fees were **\$0.9 million or 2.6% above target** at the end of the third quarter due in large part to growth in electric and cable (Cox and ATT).

Franchise Fee Revenue	Target	Revenue	Difference	%
Oklahoma Gas and Electric	16,850,962	17,294,574	443,612	2.6%
Oklahoma Natural Gas	4,278,599	4,283,767	5,168	0.1%
Oklahoma Electric Cooperative	1,023,611	1,103,007	79,396	7.8%
Cox Cable and Cox Fibernet	5,277,657	5,368,823	91,166	1.7%
City Utilities	3,498,393	3,432,350	(66,043)	(1.9%)
ATT	1,028,199	1,259,635	231,436	22.5%
Other Franchise Remitters	526,418	597,218	70,800	13.4%
TOTAL FRANCHISE FEE	32,483,839	33,339,376	855,537	2.6%

Fines and Forfeitures The Fines and Forfeitures category was **on target** and 2.6% above the same time period last year. Traffic Fines and Court Costs are the largest drivers in this category.

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 \$14.6 million that were **on target** at the end of the third quarter.

Charges for Services This revenue category had collections of \$25.2 million at the end of third quarter and was **\$0.4 million or 1.8% above target**. The quarterly payment from the GO Bond Program for services was not received when expected; had it been, the category would have been \$1.7 million above target. Engineering-related fees for private development were down 6.7% in the third quarter when compared to prior year; but strong growth in the first and second quarters brought YTD growth to 50% or \$0.9

million over prior year. Parking Meter Fees were \$0.1 million or 14% above last year.

Licenses, Permits & Fees Licenses, Permits, and Fees were **\$0.4 million or 3.3% above target**, with collections totaling \$11.7 million. Building permit revenue was flat in the third quarter; however, strong growth in the first and second quarters brought YTD growth to \$0.9 million or 21% over target and 21% over last year’s total at this point in the year. Fire Prevention Fees were \$0.1 million or 80% above last year. The higher 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.

Other Taxes Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category was **\$0.2 million or 2.9% above target** for the year, with collections totaling \$8.7 million. 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 may have run its course with tobacco tax leveling out at FY14 levels.

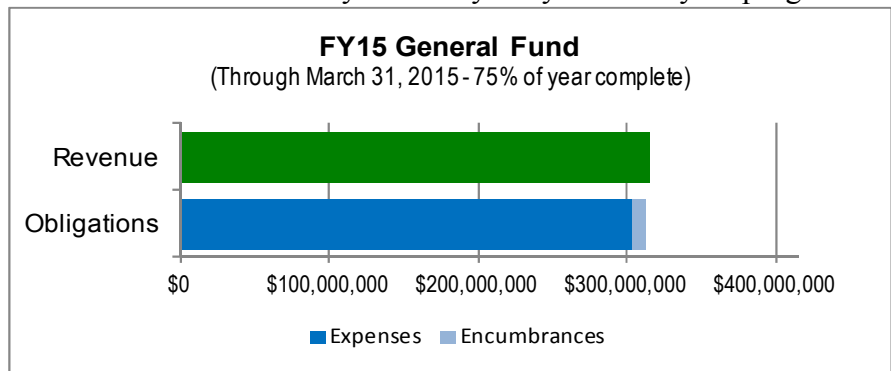
Other Revenue and Operating Transfers In These are both small revenue categories with combined collections of \$5.2 million that were **\$1.6 million or 46% above target** at the end of the third quarter. The increased revenue collection came from administrative fees associated with nuisance abatement enforcement conducted by the Development Services Department (\$0.4 million); one-time revenue from escheated funds by Development Services (\$0.4 million); operating leases performing better than projected (\$0.1 million); and higher transfers from the Civic Center (\$0.2 million).

General Fund Obligations Fiscal Year 2014-2015

General Fund Obligations totaled **\$311.9 million or 75% of the budget** with 75% of the year complete.

Variances between collected revenue and obligations are common. However, 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.



General Fund Obligations By Category						
(Through March 31, 2015 - 75% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expensed	Encumbrance	Obligations	% of Budget Obligated
Personal Services	301,359,258	222,775,435	73.9%	12,663	222,788,098	73.9%
Other Services	84,807,202	57,386,763	67.7%	6,140,818	63,527,581	74.9%
Supplies	10,371,252	5,760,014	55.5%	1,807,180	7,567,194	73.0%
Capital Outlay	107,700	38,998	36.2%	45,316	84,314	78.3%
Debt Service	10,000	3,785	37.9%	0	3,785	37.9%
Transfers	19,957,443	17,927,391	89.8%	0	17,927,391	89.8%
Total	416,612,855	303,892,387	72.9%	8,005,977	311,898,364	74.9%

*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 the third quarter with **73.9% of the budget obligated** which was slightly below the percent of the year complete. Pay plan changes for AFSCME, FOP and Management have been implemented. However, the City and IAFF have only reached a tentative agreement so pay plan changes and retro pay, if approved by Council, would be made in the fourth quarter.

Other Services Obligations at the end of the third quarter were **\$63.5 million or 74.9% of budget** and on target for the percentage of the year that has passed. The \$6.1 million encumbered is for annual services such as utilities, professional services, and management contracts which will be drawn down in the fourth quarter as services are provided. Actual expenses were slightly below the percent of the year passed at 67.7%.

Supplies Obligations for Supplies totaled **\$7.6 million or 73% of the budget** at the end of the third quarter. Actual expenses were only \$5.8 million or 55.5% which is well below the percent of year passed. The \$1.8 million encumbered will be drawn as materials and supplies are delivered.

Capital Outlay & Debt Service These are both very small categories; Capital Outlay was obligated at **78.3%** and Debt Service at **37.9%**.

Transfers At the end of the third quarter **\$17.9 million or 89.8%** of the transfer budget had been expensed which was ahead of the percentage of the year past due to the timing of some larger transfers.

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 followed by 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 **0.6% above target** for the year in collected sales tax. Minimal 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 **\$0.4 million or 3.2% above target** at the end of the third quarter 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 is needed. All four of the enterprise funds were below target.

Special Revenue and Enterprise Funds Revenue (Through March 31, 2015)				
Category/Fund	Target	Actual	Difference	% from Target
Sales Tax Supported Funds				
Police Sales Tax Fund	31,176,461	31,172,085	(4,376)	(0.0%)
Fire Sales Tax Fund	31,007,045	31,495,915	488,870	1.6%
Zoo Sales Tax Fund	10,318,576	10,376,345	57,769	0.6%
Enterprise Fund Supported by Utility Fees				
Stormwater Drainage Utility	12,610,232	13,019,404	409,172	3.2%
Enterprise Funds Supported by Transfers from a Trust				
Airports Fund	14,192,864	13,118,253	(1,074,611)	(7.6%)
Parking/Transit Fund	1,922,536	1,656,868	(265,668)	(13.8%)
Solid Waste Fund	8,246,278	7,435,153	(811,125)	(9.8%)
Water/Wastewater Fund	67,414,061	59,046,829	(8,367,232)	(12.4%)
Special Revenue Fund Supported by Transfers from the General Fund				
Emergency Management Fund	6,281,431	6,111,142	(170,289)	(2.7%)
Special Revenue Fund Supported by Fees on Court Transactions				
Court Administration Fund	1,606,868	1,605,129	(1,739)	(0.1%)
Special Revenue Fund Supported by Fees on the Residential Utility Bill				
Medical Service Program	5,148,635	5,147,101	(1,534)	(0.0%)
Special Revenue Fund Supported by Hotel/Motel Taxes				
Hotel Motel Tax Fund	16,008,656	15,801,643	(207,013)	(1.3%)

Emergency Management Fund The Emergency Management Fund was **\$0.2 million or (2.7%) below target** at the end of the third quarter due to the timing of transfers from the General Fund.

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%) below target** at the end of the third quarter with revenue of \$1.6 million. This fund is

closely related to Fine revenue in the General Fund, which was slightly above target for the year.

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 \$5.1 million at the end of the third quarter. During the annual open enrollment period in September there was minimal change in program participation.

Hotel Motel Tax Fund This fund was **\$0.2 million or (1.3%) below target** through the third quarter due to the timing of transfers related to debt service payments. Hotel Motel Tax collections had growth of 5.15% which was (0.45%) 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 75% at the end of the third quarter except for the Zoo Sales Tax Fund and the Emergency Management Fund.

The Zoo Sales Tax Fund has expensed more than budgeted due to a carryover balance from FY14. The Emergency Management Fund is slightly over budget on expenses due to an accrued leave payout that is anticipated to be offset by savings generated from vacancies.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through March 31, 2015 - 75% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
Sales Tax Supported Funds					
Police Sales Tax Fund	40,578,651	28,847,374	430,435	29,277,809	72.2%
Fire Sales Tax Fund	41,663,184	28,128,988	943,595	29,072,583	69.8%
Zoo Sales Tax Fund	13,667,230	10,382,735	0	10,382,735	76.0%
Enterprise Fund Supported by Utility Fees					
Stormwater Drainage Utility	16,932,018	10,171,630	876,744	11,048,374	65.3%
Enterprise Funds Supported by Transfers from a Trust					
Airports Fund	16,941,469	11,973,134	559,994	12,533,128	74.0%
Parking and Transit Fund	2,552,969	1,578,130	5,970	1,584,100	62.0%
Solid Waste Fund	11,770,566	7,496,632	93,377	7,590,009	64.5%
Water/Wastewater Fund	86,351,712	59,218,411	1,753,180	60,971,591	70.6%
Special Revenue Fund Supported by Transfers from the General Fund					
Emergency Management Fund	8,077,417	6,104,751	262	6,105,013	75.6%
Special Revenue Fund Supported by Fees on Court Transactions					
Court Administration Fund	2,325,861	1,557,132	43,194	1,600,326	68.8%
Special Revenue Fund Supported by Fees on Residential Utility Bill					
Medical Services Program	6,865,353	4,173,380	0	4,173,380	60.8%
Special Revenue Fund Supported by Hotel/Motel Taxes					
Hotel Motel Tax Fund	23,344,708	14,790,601	0	14,790,601	63.4%

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 March was for \$467 million in collections. The City had collected \$494.3 million resulting in the fund being \$27.1 million or **5.8% ahead of target**. The City Council designated \$9 million of over target revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately **\$18.1 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 \$746.14 for February 2015 which was **(2.3%) below prior year** and 0.38% below the prior month.

In February 2015, there were 68,398 more people employed in the Oklahoma City Metropolitan Statistical Area (MSA) than in February 2014 and unemployment had fallen to 3.6% for February 2015 compared to 5.0% in February 2014. When AWE and employment are considered together it indicates more people were employed but earning less 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 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 118 as of April 17th, which is **down 45%** from September 2014 when the average rig count for the state was 214, the highest monthly average for calendar year 2014. April is the third month in a row with a lower rig count than the same month last year.

Summary

The General Fund finished the third quarter with year-to-date **revenue growth of 4.6%** which was \$4.4 million or 1.4% above target. February Sales Tax was the largest month ever with collections of \$20.1 million and Use Tax had the second largest month ever with collections of \$4.5 million. Building Permits had flat growth in third quarter and Engineering Fees for private development declined during the third quarter; however, strong growth in the first and second quarters left both with exceptional YTD growths. Staff will continue to closely monitor revenues and economic indicators, in the coming weeks to assess the impact on the current operating budget as well as the FY16 budget that is being developed.



James D. Couch
City Manager