



City Manager Report

The City of
OKLAHOMA CITY

NO: 721

DATE: OCTOBER 27, 2015

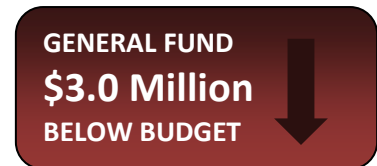
TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL

SUBJECT: INTERIM FINANCIAL REPORT THROUGH SEPTEMBER 30, 2015

This interim report is a budget report to provide a preliminary look at the City's finances through September 30, 2015. This report has not been audited.

General Fund Revenue Fiscal Year 2015-2016 (FY16)

The General Fund was \$3.0 million (2.8%) below budget at the end of the first quarter (September 2015) and \$0.1 million (0.1%) above FY15 collections for the same time period. Seven of the 10 General Fund categories were below budget at the end of the first quarter, with a large use tax refund being the most significant event. However, revenue streams that performed well last fiscal year such as cable and electric franchise fees, building permits, and engineering related fees were below budget. The \$1.1 million in growth in the Other Revenue category was from an annual payment from Oklahoma County for the City's share of the Resale Release funds. Payments are only made to the City, by the County, each July and vary greatly in amount each year.

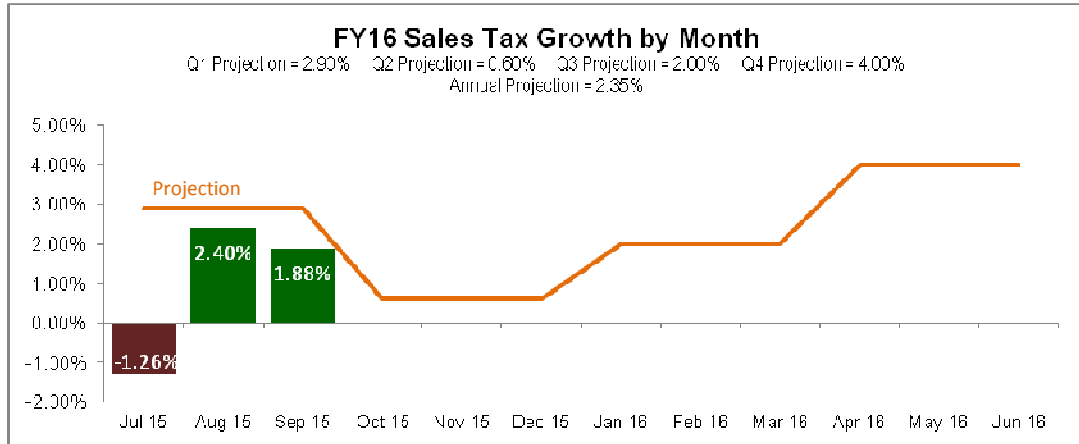


GENERAL FUND REVENUE BY CATEGORY*				
(Through September 30, 2015 - 25% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	56,223,062	55,191,149	(1,031,913)	(1.8%)
Use Tax	9,505,438	7,360,727	(2,144,711)	(22.6%)
Franchise Fee	12,301,024	11,879,151	(421,873)	(3.4%)
Charges for Services	7,744,635	8,242,650	498,015	6.4%
Fines & Forfeitures	6,569,695	5,990,244	(579,451)	(8.8%)
Administrative Charges	4,903,075	4,759,151	(143,924)	(2.9%)
Licenses, Permits, and Fees	4,121,167	3,744,875	(376,292)	(9.1%)
Other Taxes	3,101,090	3,045,896	(55,194)	(1.8%)
Other Revenue	901,598	2,084,553	1,182,955	131.2%
Operating Transfers In	583,628	681,189	97,561	16.7%
TOTAL GENERAL FUND*	105,954,412	102,979,585	(2,974,827)	(2.8%)

*Excludes budgeted Fund Balance.

Sales Tax Sales tax is the single largest revenue source in the General Fund and accounted for 54% of year-to-date (YTD) General Fund revenue.

In FY16, sales tax targets were adjusted quarterly to reflect the anticipated growth cycle. In the first quarter sales tax growth was projected at 2.9%. With **actual growth of 1.01%**, sales tax finished the quarter **1.84% below budget**. Sales Tax declined 1.26% in July but rebounded with growth of 2.4% in August and 1.88% in September. In the second quarter, the sales tax projection drops to a growth rate of 0.6%.



For further analysis, sales tax was broken down into seven sub-categories to determine where growth was occurring. Two categories, Manufacturing and Miscellaneous, experienced YTD declines, while the other five categories experienced YTD growth. This is a change from FY15 when all seven categories posted growth. Overall, most sub-categories experienced declines in July with improvement in August and September.

Sales Tax Category	YTD Growth Rate	% of Sales Tax
Total		
▲ Retail.....	2.0%	48.3%
▲ Hotels & Restaurants.....	5.8%	15.2%
▲ Services.....	3.4%	11.3%
▲ Wholesale.....	0.5%	9.8%
▲ Utilities.....	2.1%	8.9%
▼ Manufacturing.....	(0.5%)	4.7%
▼ Miscellaneous.....	(71.2%)	1.9%
▲ Total	0.7%*	100%

*The YTD Growth Rate by subcategory does not include the change in retention fees that went into effect on July 1, 2015.

- **Retail**, the largest sales tax category, accounted for 48.3% of YTD sales tax revenue and YTD growth of 2.0%.
- **Hotel and Restaurants**, the second largest sales tax category, had YTD growth of 5.8% and continued the long running trend of posting monthly growth when compared to the same month in the prior year. This was the only category to post growth each month in FY15.
- **Services** had YTD growth of 3.4%.

- **Wholesale** had YTD growth of 0.5%.
- **Utilities** had YTD growth of 2.1% due to a strong September that offset a decline of 11.2% in July.
- **Manufacturing** declined 0.5% in the first quarter, due to September remittances by oil and gas related businesses that were below prior year.
- **Miscellaneous**, the smallest sales tax category, contributed 1.9% of all sales tax remittances. The category was in decline for the past four consecutive months and posted a YTD decline of 71.2% at the end of the first quarter. The decline was widespread across the sub-categories and was primarily attributed to oil and gas related businesses.

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, had YTD collections of \$7.4 million which was **\$2.1 million or 22.6% below budget** and 22.5% below prior year for the same time period. The majority of the decline was due to a \$2.0 million refund issued to a taxpayer who remitted taxes to Oklahoma City in error for several years. **The taxpayer protested the portion of refund denied by the Oklahoma Tax Commission and the Commission has reversed their decision on a portion of the claim. A significant refund is expected to be made in the coming months that will negatively impact this category even further.**

Excluding the refund, Use Tax was sporadic. Six of seven categories experienced YTD declines in at least one month during the first quarter. Retail had YTD growth of 25.9% and was the only category that experienced growth each month in the first quarter.

Franchise Fees The Franchise Fees category was **\$0.4 million or 3.4% below budget** at the end of the first quarter with all remitters, except AT&T and City Utilities, below budget. The category experienced YTD **growth of \$0.8 million or 7.1%** in the first quarter but the first quarter budget was influenced by strong first quarter performance in FY12 and FY13. As the year progresses, the budget projections will even out and the category is expected to show improvement in the comparison to budget.

Franchise Fee Revenue	Budget	Actual	Difference	%
Oklahoma Gas and Electric	7,386,338	6,991,916	(394,422)	-5.3%
Oklahoma Natural Gas	941,189	798,748	(142,441)	-15.1%
Oklahoma Electric Cooperative	438,227	413,611	(24,616)	-5.6%
Cox Cable and Cox Fibernet	1,807,113	1,761,075	(46,038)	-2.5%
City Utilities	1,102,675	1,231,959	129,284	11.7%
ATT	435,118	494,718	59,600	13.7%
Other Franchise Remitters	190,364	187,124	(3,240)	-1.7%
TOTAL FRANCHISE FEE	12,301,024	11,879,151	(421,873)	-3.4%

Fines and Forfeitures The Fines and Forfeitures category was **\$0.6 million (8.8%) below budget** and \$0.2 million (3.5%) below the same time period last year. The below budget performance was widespread across the various sources within the 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 was **\$0.1 million (2.9%) below budget** at the end of the first quarter due to the timing of banking fees that are anticipated to be assessed and collected at the end of October.

Charges for Services This revenue category had collections of \$8.2 million in the first quarter and was **\$0.5 million (6.4%) above budget** due largely to FEMA and insurance reimbursements. Engineering-related fees for private development were projected to decline 5% in FY16; however, at the end of the first quarter the decline was deeper than anticipated at \$0.2 million or 25% below budget and \$0.3 million (40%) below prior year.

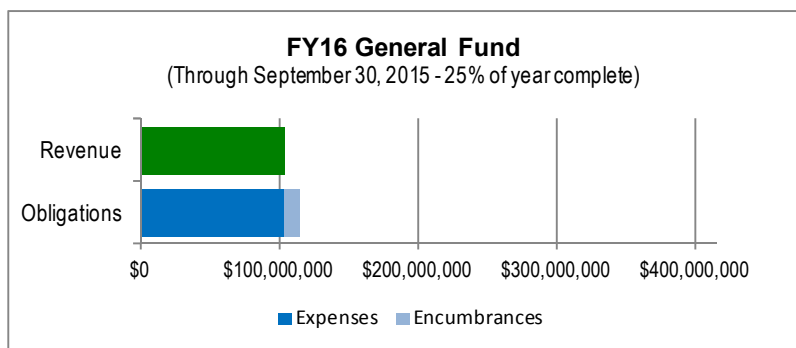
Licenses, Permits & Fees The Licenses, Permits, and Fees category was **\$0.4 million (9.1%) below budget**, with collections totaling \$3.7 million. Unlike engineering related fees for private development, building permit revenue was projected to grow slightly in FY16 as major downtown projects were expected to increase revenue. However, building permit revenue declined in the first quarter and was \$0.3 million (18%) below budget and \$0.5 million (27%) below prior year.

Other Taxes Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category was **\$0.1 million (1.8%) below budget** at the end of the first quarter with collections of \$3.0 million.

Other Revenue and Operating Transfers In These categories had combined collections of \$2.7 million, which was **\$1.2 million (83.5%) above budget** at the end of the first quarter. Growth was largely from an annual payment from Oklahoma County for the City's share of the Resale Release funds. Payments are only made to the City by the County each July when the fund balance from the sale of property from Sheriff's sales exceeds the County's budget. Because the annual remittances are sporadic and can vary greatly in amount the budget is normally low.

General Fund Obligations Fiscal Year 2015-2016

General Fund Obligations totaled **\$115.5 million** or 26.5% of the budget with 25% of the year complete. Only 24.3% of the revenue budget had been collected at the end of the first



quarter. Variances between collected revenue and obligations are common and staff continuously monitors both 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 on the following page. Obligations include expenses that have been made, as well as encumbrances.

General Fund Obligations By Category						
(Through September 30, 2015 - 25% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	311,656,539	72,437,344	23.2%	147	72,437,491	23.2%
Other Services	86,594,891	21,159,919	24.4%	10,753,604	31,913,523	36.9%
Supplies	9,148,453	1,665,177	18.2%	1,573,961	3,239,138	35.4%
Capital Outlay	184,642	77,225	41.8%	12,733	89,958	48.7%
Debt Service	10,000	2,143	21.4%	0	2,143	21.4%
Transfers	27,974,583	7,848,465	28.1%	0	7,848,465	28.1%
Total	435,569,108	103,190,273	23.7%	12,340,445	115,530,718	26.5%

*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 23.2% obligated** which was below the percent of the year complete. This is normal at this point in the year since there have been no agreements reached with collective bargaining units or pay plan adjustments.

Other Services The **Other Services budget was obligated at 36.9%** which was significantly higher than the percent of the year complete. However, actual expenses of \$21.2 million or 24.4% of budget matched the percent of year complete. The \$10.8 million encumbered was for annual services such as utilities, professional services, and management contracts that will be drawn down throughout the year as services are provided.

Supplies The **Supplies budget was obligated at 35.4%** which was also significantly higher than the percent of year complete. Actual expenses of \$1.7 million (18.2%) were well below the percent of year complete leaving the \$1.6 million encumbered to be drawn down as materials and supplies are delivered throughout the fiscal year.

Capital Outlay & Debt Service The **Capital Outlay budget was obligated at 48.7%** with 41.8% actually expensed by the Parks and Recreation Department on equipment. While the percentage of budget obligated was high, the dollar value of those obligations was minimal in the General Fund budget. The **Debt Service budget was obligated at 21.4%** and pays the bank paying agent charges associated with General Obligation Bonds. No debt is paid from the General Fund.

Transfers At the end of September, **28.1% of the transfer budget was obligated** which was slightly higher than the percent of year complete. The early obligation of the transfer budget was largely due to the timing of transfers to the CIP fund to ensure funds were in place to keep projects timely and to other funds to meet various obligations.

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 budget 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 Sales tax was **1.8% below budget** for the 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 **\$0.2 million or 4.7% above budget** at the end of the first quarter due to timing of reimbursements from the Oklahoma Department of Transportation.

Enterprise Funds Enterprise Funds are supported by transfers from public trusts and have established budgets; however, transfers into the Enterprise Fund are based on cash flow needs for the operating fund. Below budget 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 enterprise funds were below budget at the end of the first quarter.

Emergency Management Fund The Emergency Management Fund supports the E-911 system for Oklahoma City and was \$0.8 million (33.5%) below budget at the end of the first quarter due to the timing of transfers from the General Fund and remittances from the Association of Central Oklahoma Governments (ACOG).

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 1.2% above budget at the end of the first quarter with revenue of \$0.5 million.

Special Revenue and Enterprise Funds Revenue (Through September 30, 2015)				
Category/Fund	Budget	Actual	Difference	% from Target
Sales Tax Supported Funds				
Police Sales Tax Fund	10,683,008	10,371,107	(311,901)	(2.9%)
Fire Sales Tax Fund	10,566,604	10,372,473	(194,131)	(1.8%)
Zoo Sales Tax Fund	3,513,942	3,449,477	(64,465)	(1.8%)
Enterprise Fund Supported by Utility Fees				
Stormwater Drainage Utility	4,209,736	4,406,938	197,202	4.7%
Enterprise Funds Supported by Transfers from a Trust				
Airports Fund	5,033,344	4,844,865	(188,479)	(3.7%)
Parking/Transit Fund	1,080,495	942,057	(138,438)	(12.8%)
Solid Waste Fund	3,356,106	3,186,946	(169,160)	(5.0%)
Water/Wastewater Fund	28,817,742	27,329,803	(1,487,939)	(5.2%)
Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund				
Emergency Management Fund	2,243,766	1,492,366	(751,400)	(33.5%)
Special Revenue Fund Supported by Fees on Court Transactions				
Court Administration Fund	524,600	531,128	6,528	1.2%
Special Revenue Fund Supported by Fees on the Residential Utility Bill				
Medical Service Program	1,700,973	1,692,153	(8,820)	(0.5%)
Special Revenue Fund Supported by Hotel/Motel Taxes				
Hotel Motel Tax Fund	5,378,697	5,175,421	(203,276)	(3.8%)

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. At the end of the first quarter, the fund was **0.5% below budget** with revenue of \$1.7 million. September is the annual open enrollment period and any changes in program participation will begin to show in the second quarter.

Hotel Motel Tax Fund This fund was **\$0.2 million (3.8%) below budget** at the end of the first quarter due to the timing of transfers related to debt service payments. Hotel Motel Tax collections were \$0.2 million (4.14%) above budget and \$0.1 million (3.57%) above the same time period in the 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 on the following page. Each fund was at or below the expected level of 25% at the end of the first quarter.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through September 30, 2015 - 25% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
Sales Tax Supported Funds					
Police Sales Tax Fund	42,497,043	9,043,894	531,123	9,575,017	22.5%
Fire Sales Tax Fund	45,329,593	9,131,878	618,651	9,750,529	21.5%
Zoo Sales Tax Fund	14,279,300	3,449,447	0	3,449,447	24.2%
Enterprise Fund Supported by Utility Fees					
Stormwater Drainage Utility	16,484,516	2,983,988	982,380	3,966,368	24.1%
Enterprise Funds Supported by Transfers from a Trust					
Airports Fund	17,366,497	3,832,830	46,900	3,879,730	22.3%
Parking and Transit Fund	3,226,307	535,656	9,579	545,235	16.9%
Solid Waste Fund	11,761,276	2,362,335	43,031	2,405,366	20.5%
Water/Wastewater Fund	88,110,578	17,246,674	1,817,036	19,063,710	21.6%
Special Revenue Fund Supported by Transfers from the General Fund					
Emergency Management Fund	8,465,643	1,955,240	1,373	1,956,613	23.1%
Special Revenue Fund Supported by Fees on Court Transactions					
Court Administration Fund	2,273,602	470,283	87,139	557,422	24.5%
Special Revenue Fund Supported by Fees on Residential Utility Bill					
Medical Services Program	6,853,081	1,316,747	0	1,316,747	19.2%
Special Revenue Fund Supported by Hotel/Motel Taxes					
Hotel Motel Tax Fund	20,343,479	5,008,854	0	5,008,854	24.6%

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 September was for \$516.4 million in collections. The City had collected \$548.3 million resulting in the fund being \$31.9 million or **6.2% ahead of budget**. The City Council designated \$9 million additional revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately \$22.9 million ahead of budget 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 \$745.36 for August 2015 which was **2.4% below prior year** but 3.6% above the prior month.

In August 2015, there were 18,804 (3.04%) more people employed in the Oklahoma City Metropolitan Statistical Area (MSA) than in August 2014. Unemployment remained at 3.9% in the OKC-MSA for August 2015. When AWE and employment are considered together it indicates more people were employed, but earning less on average, than they were a year

ago.

- **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 September rig count was 106, which was down 50% from prior year and the eighth consecutive month with a rig count lower than the same month in the prior year. In the current month, the rig count declined another 17 and was at 89 rigs as of October 16, 2015.

Summary

At the end of the first quarter the General Fund was \$3.0 million (2.8%) below budget with minimal growth of \$0.1 million (0.1%). The under budget performance was spread across most General Fund categories and was further hampered by a \$2.0 million use tax refund in July.



James D. Couch
City Manager