



# City Manager Report

The City of  
**OKLAHOMA CITY**

**NO: 561**

**DATE: JANUARY 27, 2015**

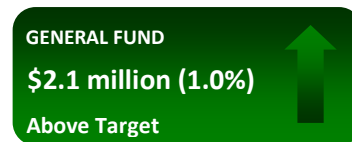
**TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL**

**SUBJECT: INTERIM FINANCIAL REPORT THROUGH DECEMBER 31, 2014**

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 second quarter. This report has not been audited.

### General Fund Revenue Fiscal Year 2014-2015

General Fund revenues were \$2.1 million (1.0%) above target through December 2014 and \$9.8 million (4.9%) above FY14 collections for same time period. Eight of the ten revenue categories that make up the General Fund were above target as shown in the table below.



<b>GENERAL FUND REVENUE BY CATEGORY*</b>				
(Through December 31, 2014 - 50% of the year complete)				
<b>Category</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>	<b>Percentage</b>
Sales Tax	109,973,390	110,384,318	410,928	0.4%
Use Tax	19,648,815	19,551,969	(96,846)	(0.5%)
Franchise Fee	21,895,458	22,208,703	313,245	1.4%
Charges for Services	16,176,439	16,218,692	42,254	0.3%
Fines & Forfeitures	12,697,136	12,853,026	155,890	1.2%
Administrative Charges	9,708,528	9,612,106	(96,422)	(1.0%)
Licenses, Permits, and Fees	7,556,326	7,903,413	347,087	4.6%
Other Taxes	5,741,436	5,859,413	117,977	2.1%
Other Revenue	1,313,857	1,512,490	198,633	15.1%
Operating Transfers In	891,837	1,642,709	750,872	84.2%
<b>TOTAL GENERAL FUND*</b>	<b>205,603,222</b>	<b>207,746,839</b>	<b>2,143,617</b>	<b>1.0%</b>

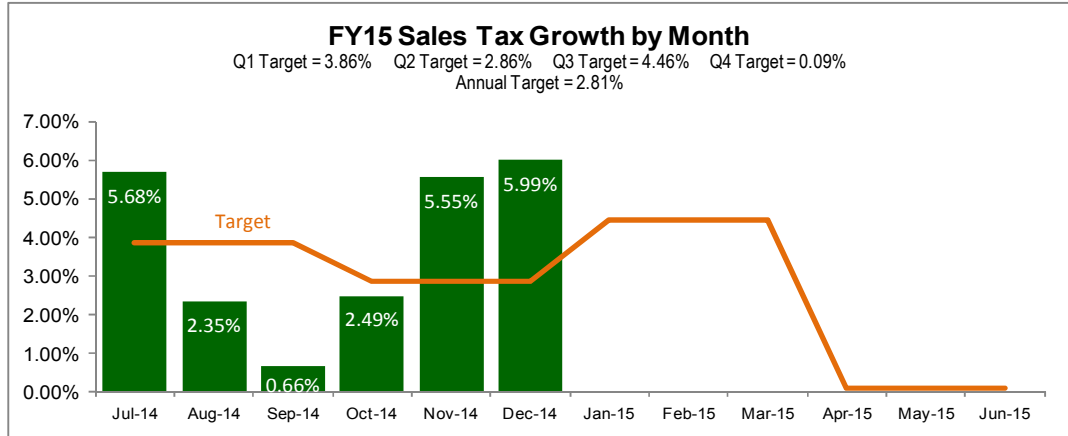
\*Excludes budgeted Fund Balance.

Key contributors to the growth in General Fund Revenue were improved sales tax collections, growth in engineering related fees, building permits, and administrative fees associated with nuisance abatement enforcement conducted by the Development Services Department.

*Sales Tax*

Sales tax is the single largest revenue source in the General Fund and accounted for 53% of year-to-date (YTD) revenue. December was the tenth straight month of sales tax growth.

In FY15, sales tax targets were adjusted quarterly to reflect the anticipated growth cycle. In the second quarter, Sales Tax grew at 4.64% which is higher than projected growth of 2.86%. Year-to-date, sales tax grew at 3.70%, almost a full percentage point greater than the annual target of 2.80% growth. In the third quarter, the target growth rate for sales tax increases to 4.46%.



For further analysis, sales tax is broken down into seven sub-categories to identify where growth is occurring.

YTD GROWTH RATES		
Sales Tax Category	Growth Rate	% of Sales Tax Total
▲ Retail .....	2.3%	49.2%
▲ Hotels & Restaurants .....	5.6%	15.2%
▲ Services .....	7.3%	11.5%
▲ Wholesale .....	4.2%	10.1%
▲ Utilities.....	3.8%	7.0%
▲ Manufacturing .....	8.7%	4.7%
▲ Miscellaneous .....	1.6%	2.4%
▲ Total .....	3.9%	100%

- **Retail** was the largest sales tax category with 49% of all sales tax revenue. YTD growth was 2.3% and was hampered by declines in three of the six months. Strong growth of 6.8% in December was attributed to improvement in the general merchandise category along with food stores that experienced good growth.

- **Hotel and Restaurants**, the second largest sales tax category, had YTD growth of 5.6%. This category has experienced growth all six months with eating and drinking establishments helping to stabilize fluctuating hotel revenue.
- **Services** experienced growth all six months with 24% growth in October due to an increase in rentals and leasing. YTD growth was 7.3%.
- **Wholesale** had YTD growth of 4.2% due to many wholesalers exhibiting robust sales in November (15% growth).
- **Utilities** had YTD growth of 3.8% with strong sales in August and the entire second quarter which averaged 5.3% growth.

- **Manufacturing** experienced exceptional growth of 42% in December due to a single remitter experiencing retail sales outside their normal wholesale business model. Year to date growth was 4.7%.
- **Miscellaneous**, the smallest sales tax category, contributed 2.4% of all sales tax remittances. YTD growth of 1.6% growth was attributed to current year remittances being compared to a large refund given in August of last year. With that anomaly excluded, the category experienced a decline of 19% attributed to the Oklahoma Tax Commission properly classifying businesses and moving them into one of the other categories.

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

*Use Tax*

Use Tax, the third largest General Fund revenue source, was **\$0.1 million (0.5%) below target** and 8.5% above prior year at the end of December. Use Tax is broken into the same sub-categories as sales tax but the activity is much more sporadic with all eight categories in decline at least two months during the first half of the year. However, seven of the eight categories experienced strong growth, usually in the double digits, in the remaining months. The three largest categories, Wholesale, Retail and Miscellaneous, accounted for 73% of use tax and experienced average growth of 10.6%. The only category in decline at the end of December was Services which experienced negative growth the first five months and finished the second quarter 4.5% below prior year. Use Tax had year to date collections of \$19.6 million.

*Franchise Fees*

As a category, Franchise Fees were **\$0.3 million (1.4%) above target** at the end of December due in large part to growth in cable (Cox and ATT) and growth in smaller remitters such as Oklahoma Electric Cooperative.

Franchise Fee Revenue	Target	Revenue	Difference	%
Oklahoma Gas and Electric	12,473,562	12,466,775	(6,787)	(0.1%)
Oklahoma Natural Gas	1,860,715	1,860,773	58	0.0%
Oklahoma Electric Cooperative	728,804	811,127	82,323	11.3%
Cox Cable and Cox Fibernet	3,518,438	3,599,662	81,224	2.3%
City Utilities	2,300,041	2,267,950	(32,091)	(1.4%)
ATT	685,466	810,757	125,291	18.3%
Other Franchise Remitters	328,432	391,658	63,226	19.3%
<b>TOTAL FRANCHISE FEE</b>	<b>21,895,458</b>	<b>22,208,703</b>	<b>313,245</b>	<b>1.4%</b>

*Fines and Forfeitures*

The Fines and Forfeitures category was **\$0.2 million (1.2%) above target** and 2.4% above the same time period last year. Traffic Fines and Court Costs are the largest drivers in this category and both were up at the end of the second quarter. Traffic citations filed with the court were up 5,182 at the end of December when compared to the same time period in the previous year.

*Admin. Charges*

Administrative charges had collections of \$9.6 million and were **\$0.1 million (1.0%) below target** due to the timing of payments.

*Charges for Services* This revenue category had total revenue of \$16.2 million at the end of the second quarter and was **\$0.04 million (0.3%) above target**. Engineering-related Fees for private development were \$1 million (112%) above target and 88% above the same time period last year. Payments from the OKC School District for Security Services and GO Bond payments were below target by \$1.1 million, due to timing of payments. Had payments been received within the projected timeframe, this category would have been \$1.5 million (7%) above target.

*Licenses, Permits and Fees* Licenses, Permits, and Fees were **\$0.3 million (4.6%) above target**, with collections totaling \$7.9 million. The main driver of growth was building permits that were \$0.6 million (22.1%) over target and 33.7% over last year's total at this point in the year. Projected registration revenue from the abandoned building program will not be collected due to legislative changes that required changes to the program. A fine-based approach is being implemented and will have an impact in the Fines and Forfeitures category as the program is fully implemented.

*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 above target (2.1%)** for the year, with collections totaling \$5.8 million. Growth was attributed to excise tax and vehicle tax. Excise Tax had declined the past two years as more people substituted e-cigarettes for cigarettes and was projected to continue to decrease in the current fiscal year. However, it looks like the trend may be turning with tobacco tax leveling out at a little higher level than original projections.

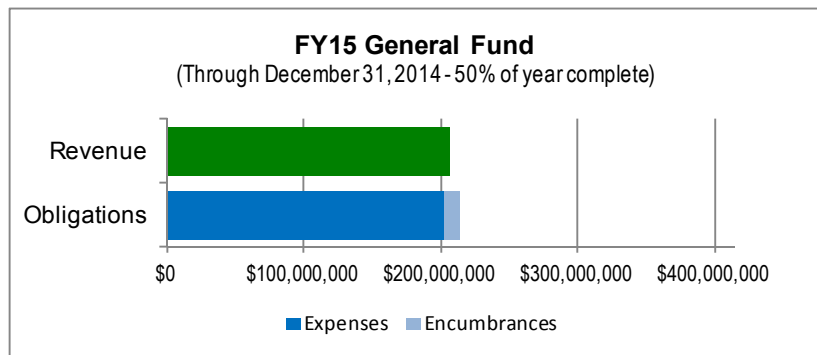
*Other Revenue and Operating Transfers In* These are both small revenue categories with combined collections of \$3.2 million that were **\$0.9 million (48%) above target** at the end of the second quarter. The increased revenue collection came from administrative fees associated with nuisance abatement enforcement conducted by the Development Services Department (\$0.4 million); annual repayment from SMG for the Distributive Antenna System (DAS) that provides enhanced wireless cellular service at the Chesapeake Arena and Cox Center (\$0.2 million); transfers from the Civic Center (\$0.2 million); and operating leases performing better than anticipated (\$0.1 million).

### General Fund Obligations Fiscal Year 2014-2015

General Fund Obligations totaled **\$215.2 million** or 51.7% of the budget with 50% 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.



<b>General Fund Obligations By Category</b>						
(Through December 31, 2014 - 50% of the year complete)						
<b>Account Class</b>	<b>Annual Budget</b>	<b>YTD Expense</b>	<b>% of Budget Expended</b>	<b>Encumbrance</b>	<b>Obligations</b>	<b>% of Budget Obligated</b>
Personal Services	301,359,258	148,962,614	49.4%	23,143	148,985,757	49.4%
Other Services	86,069,074	39,287,655	45.6%	10,344,470	49,632,125	57.7%
Supplies	10,464,903	3,757,336	35.9%	2,282,483	6,039,819	57.7%
Capital Outlay	34,128	11,128	32.6%	0	11,128	32.6%
Debt Service	10,000	1,818	18.2%	0	1,818	18.2%
Transfers	18,675,492	10,540,968	56.4%	0	10,540,968	56.4%
<b>Total</b>	<b>416,612,855</b>	<b>202,561,518</b>	<b>48.6%</b>	<b>12,650,096</b>	<b>215,211,614</b>	<b>51.7%</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 the second quarter with **49.4% of the budget obligated** which was slightly below target for the percent of the year complete. It should be noted that pay plan increases for the City's various employee groups for FY15 had not been implemented at the end of the second quarter although some had reached agreements. Pay plan changes with AFSCME were approved on December 30, 2014 and the FOP had reached a tentative agreement. IAFF had not reached agreement nor had changes to the Management pay plan been finalized.

*Other Services* Obligations through December were **\$49.6 million (57.7%)** and above the percentage of the year that has passed. The \$10.3 million encumbered is for annual services such as utilities, professional services, and management contracts which will be drawn down throughout the year as services are provided.

*Supplies* Obligations for Supplies totaled **\$6 million** or 57.7% of the budget at the end of December. Actual expenses were only 35.9% which is well below the percent of year passed. The \$2.3 million encumbered will be drawn as those supplies are delivered.

*Capital Outlay & Debt Service* These very small categories were at **32.6%** and **18.2% expended**.

*Transfers* At the end of the second quarter **\$10.5 million (56.4%)** of the Transfers budget had been expended.

## 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 followed by discussion of the funds' revenue situation.

Special Revenue and Enterprise Funds Revenue (Through December 31, 2014)				
Category/Fund	Target	Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	20,797,839	20,719,978	(77,861)	(0.4%)
Fire Sales Tax Fund	20,659,912	20,966,281	306,369	1.5%
Zoo Sales Tax Fund	6,873,338	6,899,035	25,697	0.4%
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	8,366,618	8,697,927	331,309	4.0%
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	9,702,339	8,961,940	(740,399)	(7.6%)
Parking/Transit Fund	1,443,267	1,109,875	(333,392)	(23.1%)
Solid Waste Fund	5,486,019	5,805,758	319,739	5.8%
Water/Wastewater Fund	49,327,515	47,724,786	(1,602,729)	(3.2%)
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>				
Emergency Management Fund	4,278,224	3,908,168	(370,056)	(8.6%)
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	1,043,584	1,040,976	(2,608)	(0.2%)
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	3,408,104	3,424,875	16,771	0.5%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Motel Tax Fund	11,756,605	10,687,968	(1,068,637)	(9.1%)

*Police, Fire and Zoo Sales Taxes* The special revenue funds supported by the dedicated Police, Fire, and Zoo Sales Taxes were 0.4% above target for the year in collected sales tax. Minimal revenue collections from interest earnings, sale of City property and rental of communication towers accounted for the additional fund variances.

*Stormwater Drainage Utility Fund* The Stormwater Drainage Utility Fund was **\$0.3 million** (4%) above target at the end of the second quarter due 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. Airports, Parking and Water were below target and Solid Waste was above target due to the timing of transfers to ensure funding was in place prior to encumbrance of expenses.

*Emergency Management* The Emergency Management Fund was \$0.4 million (8.6%) below target at the end of the second quarter due to smaller transfers from the General Fund

*Fund* because operating costs were less than expected.

*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 on target at the end of the second quarter with revenue of \$1 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 0.5% above target with revenue of \$3.4 million at the end of the second quarter. During the annual open enrollment period in September there was minimal change in program participation.

*Hotel Motel Tax Fund* This fund was \$1.1 million (9.1%) below target through December due to the timing of transfers related to debt service payments and lower than anticipated Hotel Motel Tax collections. Hotel/Motel tax by itself was only \$0.1 million (1.3%) below target with growth of 3.4%.

### **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 50%** at the end of the second quarter.

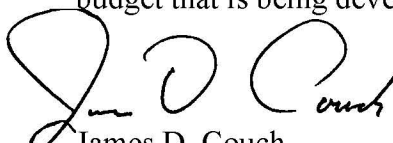
Summary of Budget vs. Obligations in Other Operating Funds					
(Through December 31, 2014 - 50% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
<b>Sales Tax Supported Funds</b>					
Police Sales Tax Fund	40,578,651	18,846,773	239,182	19,085,955	47.0%
Fire Sales Tax Fund	41,663,184	18,701,956	864,877	19,566,833	47.0%
Zoo Sales Tax Fund	13,667,230	6,899,020	0	6,899,020	50.5%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	16,932,018	6,616,928	536,137	7,153,065	42.2%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	16,941,469	7,872,098	47,040	7,919,138	46.7%
Parking and Transit Fund	2,552,969	1,010,187	20,462	1,030,649	40.4%
Solid Waste Fund	11,770,566	4,965,978	85,955	5,051,933	42.9%
Water/Wastewater Fund	86,351,712	38,830,064	1,601,929	40,431,993	46.8%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	8,077,417	4,027,938	262	4,028,200	49.9%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,325,861	994,460	59,677	1,054,137	45.3%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,865,353	2,801,945	0	2,801,945	40.8%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	23,344,708	10,043,498	0	10,043,498	43.0%

### 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 December was for \$440.7 million in collections. The City had collected \$466.5 million resulting in the fund being \$25.8 million or 5.9% ahead of target. The City Council designated \$9 million of over target revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately \$16.8 million ahead of target after the adjustment.

### Summary

The General Fund finished the second quarter with overall revenue growth of 4.9% which was \$2.1 million (1.0%) above target. Sales tax improved and there was continued growth in private development fees and building permits. Use Tax grew at 8.5%, slightly below the target of 9%. Staff will continue to closely monitor revenues, and indicators such as energy sector activity, 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