



City Manager Report

The City of OKLAHOMA CITY

NO: 832

DATE: APRIL 26, 2016

TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL

SUBJECT: INTERIM FINANCIAL REPORT THROUGH MARCH 31, 2016

This interim report is a budget report to provide a preliminary look at the City's finances through March 31, 2016. This report has not been audited.

General Fund Revenue Fiscal Year 2015-2016 (FY16)

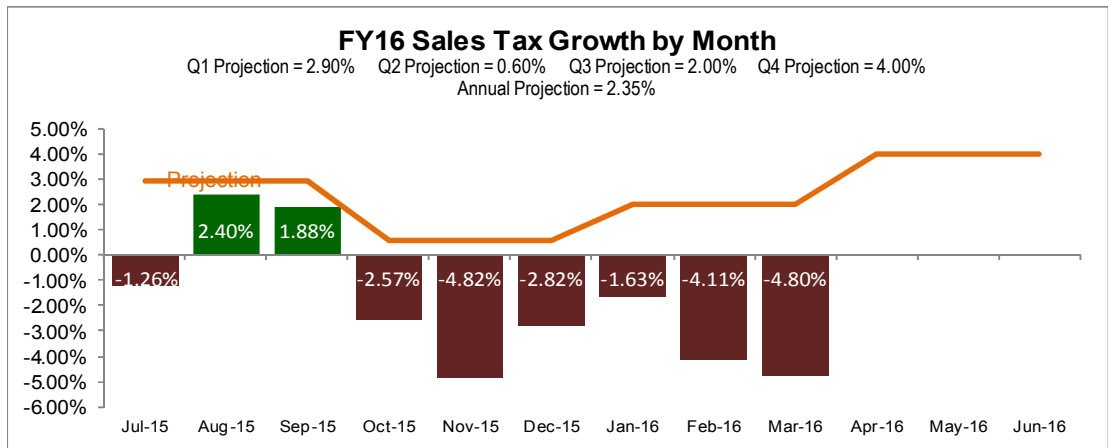
The General Fund was **\$14.6 million (4.6%) below budget** at the end of March and \$10.8 million (3.4%) below FY15 collections for the same time period. Eight of the 10 General Fund categories were below budget at the end of March. The timing of approximately \$1.6 million in payments pushed collections further below projections but is expected to correct within the next month. A large use tax refund was made in the first half of the year. Since a refund was anticipated, \$5.5 million in prior year Use Tax collections was set aside in reserves and transferred to the General Fund in December as a partial offset and is reflected in the *Operating Transfers In* category. Sales Tax and Fines performed below projections and revenue streams that performed well last fiscal year such as cable and electric franchise fees, building permits, and engineering related fees were also below budget. The \$1.0 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 each year.

GENERAL FUND REVENUE BY CATEGORY*				
(Through 03/31/216 - 75% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	169,044,929	162,732,031	(6,312,898)	-3.7%
Use Tax	29,005,794	21,036,950	(7,968,844)	-27.5%
Franchise Fee	34,362,347	31,682,496	(2,679,851)	-7.8%
Charges for Services	25,941,919	25,193,412	(748,507)	-2.9%
Fines & Forfeitures	20,449,990	17,895,067	(2,554,923)	-12.5%
Administrative Charges	14,721,855	14,515,453	(206,402)	-1.4%
Licenses, Permits, and Fees	11,734,157	10,583,109	(1,151,048)	-9.8%
Other Taxes	8,755,713	8,712,933	(42,780)	-0.5%
Other Revenue	2,302,203	3,354,643	1,052,440	45.7%
Operating Transfers In	2,082,218	8,058,023	5,975,805	287.0%
TOTAL GENERAL FUND*	318,401,125	303,764,118	(14,637,008)	-4.6%

*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 third quarter, sales tax was projected to grow at 2.00% but instead averaged a decline of 3.51% for the quarter and a **YTD decline of \$6.3 million or 3.7% below YTD budget** and \$3.3 million (2.0%) below prior year. February was the second largest month of sales tax collections ever received at \$19.3 million, but that was \$0.8 million below February 2015, which was the largest collection ever. Sales Tax was down seven out of nine months.



For further analysis, sales tax was broken down into seven categories to determine where growth was occurring. Hotels & Restaurants was the only category to post YTD growth.

- **Retail**, the largest sales tax category, posted a YTD decline of 2.1%. March declined 5.0% and was the sixth consecutive month of decline for the category.
- **Hotel and Restaurants**, the second largest sales tax category, continued the long running trend of posting monthly growth when compared to the same month in the prior year. March posted growth of 7.6% while YTD growth was 4.2%. This was the only category to post growth each month in FY15 and year to date in FY16.
- **Services** declined 1.7% YTD due primarily to declines in oil and gas related rental businesses.
- **Wholesale** declined 6.0% YTD, with five consecutive months of negative growth.

Sales Tax Category	YTD Growth Rate	% of Sales Tax Total
▼ Retail.....	(2.1%)	53.1%
▲ Hotels & Restaurants.....	4.2%	14.4%
▲ Services.....	(1.7%)	10.9%
▼ Wholesale.....	(6.0%)	8.8%
▲ Utilities.....	(3.5%)	6.4%
▼ Manufacturing.....	(6.9%)	4.7%
▼ Miscellaneous.....	(30.0%)	1.7%
▼ Total	(2.5%)*	100%

*The YTD Growth Rate by category does not include the 0.5% change in retention fees that went into effect on July 1, 2015.

- **Utilities** declined 3.5% YTD largely due to mild temperatures this fiscal year and lower fuel prices.
- **Manufacturing** declined 6.9% YTD with flat growth in March after three consecutive months of double digit declines.
- **Miscellaneous**, the smallest sales tax category, contributed 1.5% of all sales tax remittances. The category declined 30.0% YTD and was primarily attributed to unclassified businesses being properly classified to one of the other categories.

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

Use Tax Use tax, the third largest budgeted General Fund revenue category, had YTD collections of \$21.0 million which was **\$8.0 million (27.5%) below budget** and \$8.6 million (29.1%) below prior year for the same time period. The majority of the decline was due to a \$6.6 million refund issued to a taxpayer who remitted taxes to Oklahoma City in error for several years. A refund was anticipated and \$5.5 million was set aside in reserves which was transferred to the General Fund in December and is recorded in the Operating Transfers In category. Excluding the refund, Use Tax was \$1.4 million (4.67%) below budget and \$2.0 million (6.83%) below prior year.

Franchise Fees The Franchise Fees category was **\$2.7 million or 7.8% below budget** at the end of March with most remitters below budget. The category was \$1.7 million (5.0%) below prior year. Mild temperatures and low fuel costs have resulted in lower utility sales.

Franchise Fee Revenue	Budget	Actual	Difference	%
Oklahoma Gas and Electric	17,527,103	16,326,576	(1,200,527)	-6.8%
Oklahoma Natural Gas	4,719,472	3,403,156	(1,316,316)	-27.9%
Oklahoma Electric Cooperative	1,135,089	990,691	(144,398)	-12.7%
Cox Cable and Cox Fibernet	5,421,339	5,263,077	(158,262)	-2.9%
City Utilities	3,664,398	3,680,183	15,784	0.4%
ATT	1,305,354	1,476,320	170,966	13.1%
Other Franchise Remitters	589,592	542,493	(47,099)	-8.0%
TOTAL FRANCHISE FEE	34,362,347	31,682,496	(2,679,851)	-7.8%

Fines and Forfeitures The Fines and Forfeitures category was **\$2.6 million (12.5%) below budget** and \$2.3 million (11.5%) below the same time period last year. The below budget performance was widespread across the various sources within the category. Cases filed with the Court were up in both February and March but down 11,758 (10%) YTD when compared to the same time period in the previous year.

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 **\$0.2 million (1.4%) below budget** at the end of March due to the timing of banking fee charges that are paid based on actual costs incurred.

Charges for Services Service Charges had collections of \$25.1 million at the end of March. The category was **\$0.7 million (2.9%) below budget** and flat compared to prior year. The below budget performance was attributed to the timing of \$1.6 million in project management payments from General Obligation Bonds. Engineering-related fees for private development were \$0.7 million or 30.7% below budget and \$1.0 million (37.3%) below prior year. The decline in the Charges for Services category was minimized by the timing of payments, receipt of \$0.3 million in one-time revenue from FEMA, as well as better than expected performance in a number of smaller revenue accounts.

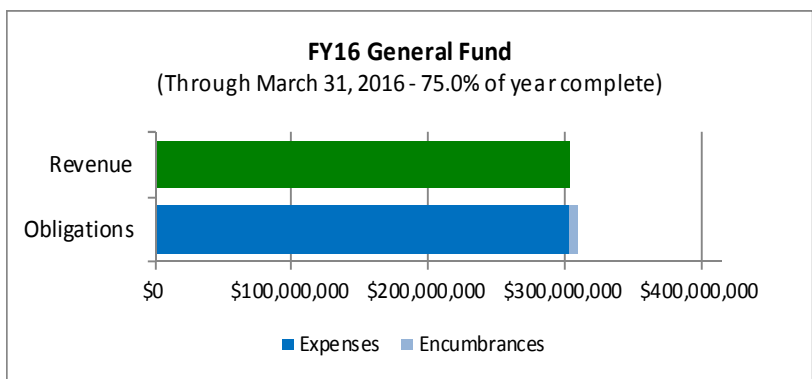
Licenses, Permits & Fees The Licenses, Permits, and Fees category was **\$1.2 million (9.8%) below budget**, due to building permit revenue that was \$1.1 million (22.6%) below budget and plumbing permit revenue that was \$0.1 million (11.1%) below budget.

Other Taxes Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category was **0.5% below budget** at the end of March and 0.4% above prior year with collections of \$8.7 million. The decline came from vehicle tax.

Other Revenue and Operating Transfers In These categories had combined collections of \$11.4 million, which was **\$7.0 million (159.1%) above budget** at the end of March. Growth was largely from the \$5.5 million transfer from reserves for the Use Tax refund and a \$1.2 million 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 **\$309.7 million** or 71.1% of the budget; 71.6% of the revenue budget had been collected and 75.0% of the year was complete at the end of March. 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. Due to the trend of lower revenue growth, a hiring freeze was instituted November 9, 2015 to help reduce costs in the current year and prepare for the FY17 budget. Obligations were 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 03/31/216 - 75% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	311,486,816	222,400,075	71.4%	826	222,400,901	71.4%
Other Services	85,515,504	58,319,919	68.2%	5,411,780	63,731,699	74.5%
Supplies	8,953,530	5,063,417	56.6%	985,419	6,048,836	67.6%
Capital Outlay	98,687	98,438	99.7%	246	98,684	100.0%
Debt Service	10,000	4,160	41.6%	0	4,160	41.6%
Transfers	29,504,571	17,366,171	58.9%	0	17,366,171	58.9%
Total	435,569,108	303,252,179	69.6%	6,398,271	309,650,450	71.1%

Personal Services The Personal Services category is significant since it represents 73% of the General Fund budget. As shown in the table, the budget for **Personal Services was 71.4% obligated** which was below the percent of the year complete. Pay plan adjustments have been finalized for management and agreements reached with all the collective bargaining units. Adjustments have been implemented for all pay plans and will be retroactive to July 1st. The new pay plan rates have all been implemented and retroactive payments have been made for all groups other than for employees under the Fraternal Order of Police collective bargaining unit. Their retroactive pay will be completed in April. To help offset declining revenue, a hiring freeze was implemented November 9th that is expected to produce savings of approximately \$1.7 million in the category.

Other Services The **Other Services budget was obligated at 74.5%** which was slightly lower than the percent of the year complete. Actual expenses were \$58.3 million or 68.2% of budget which was lower than the percent of year complete. The \$5.4 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 67.6%** which was below the percent of year complete. Actual expenses of \$5.1 million (56.6%) were well below the percent of year complete leaving the \$1.0 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 100% obligated**, most of which was Parks and Recreation Department equipment. The **Debt Service budget was obligated at 41.6%**. No debt is paid from the General Fund, the expense recorded was to pay the bank paying agent charges associated with General Obligation Bonds.

Transfers At the end of March, **58.9% of the transfer budget was obligated** which was lower than the percent of year complete. Due to the decline in revenue over \$2.1 million in transfers to the Capital Improvement Fund are being held to keep expenditures down resulting in savings in this category.

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 below followed by discussion of the funds' revenue situation.

Special Revenue and Enterprise Funds Revenue (Through 03/31/216)				
Category/Fund	Budget	Actual	Difference	% from Target
Sales Tax Supported Funds				
Police Sales Tax Fund	31,584,324	30,398,288	(1,186,036)	(3.8%)
Fire Sales Tax Fund	31,765,159	30,618,809	(1,146,350)	(3.6%)
Zoo Sales Tax Fund	10,565,308	10,172,661	(392,647)	(3.7%)
Enterprise Fund Supported by Utility Fees				
Stormwater Drainage Utility	13,093,289	13,584,746	491,457	3.8%
Enterprise Funds Supported by Transfers from a Trust				
Airports Fund	14,283,911	13,620,337	(663,574)	(4.6%)
Parking/Transit Fund	2,198,289	2,317,503	119,214	5.4%
Solid Waste Fund	7,861,967	7,412,364	(449,603)	(5.7%)
Water/Wastewater Fund	60,853,226	62,389,755	1,536,529	2.5%
Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund				
Emergency Management Fund	6,287,032	6,140,904	(146,128)	(2.3%)
Special Revenue Fund Supported by Fees on Court Transactions				
Court Administration Fund	1,598,136	1,496,818	(101,318)	(6.3%)
Special Revenue Fund Supported by Fees on the Residential Utility Bill				
Medical Service Program	5,159,520	5,177,261	17,741	0.3%
Special Revenue Fund Supported by Hotel/Motel Taxes				
Hotel Motel Tax Fund	15,265,046	15,354,653	89,607	0.6%

Police, Fire and Zoo Sales Taxes Sales tax was **3.7% 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 **\$0.5 million or 3.8% above budget** at the end of March due to better than expected receipts from utility fees and FEMA reimbursements.

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 needed to be transferred from the trusts. The Parking/Transit Fund and the Water/Wastewater Fund actuals were greater than the percentage of year passed due to timing of payments that ensured budget was in place for anticipated obligations.

Emergency Management Fund The Emergency Management Fund supports the E-911 system for Oklahoma City and was **\$0.1 million (2.3%) below budget** at the end of March due to the timing of the General Fund transfer that supports operations.

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 **\$0.1 million (6.3%) below budget** at the end of March with revenue of \$1.5 million. This fund is related to Fine revenue in the General Fund, which was also below budget 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. At the end of March, the fund was **on budget** with revenue of \$5.2 million. September was the annual open enrollment period and there was a net program participation increase of 268 customers.

Hotel Motel Tax Fund This fund was **\$0.1 million (0.6%) above budget** at the end of March due to the timing of the debt service payment. Hotel Motel Tax collections were \$0.5 million (5.35%) above budget and \$0.1 million (0.96%) 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 below. Each fund was at or below the expected level of 75% at the end of March except the Police Sales Tax Fund which was 75.2% due to encumbrances.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through 03/31/216 - 75% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
Sales Tax Supported Funds					
Police Sales Tax Fund	42,497,043	31,222,416	718,617	31,941,033	75.2%
Fire Sales Tax Fund	45,329,593	27,578,472	746,761	28,325,233	62.5%
Zoo Sales Tax Fund	14,279,300	10,187,764	0	10,187,764	71.3%
Enterprise Fund Supported by Utility Fees					
Stormwater Drainage Utility	16,484,516	10,118,104	622,874	10,740,978	65.2%
Enterprise Funds Supported by Transfers from a Trust					
Airports Fund	17,366,497	12,420,118	139,028	12,559,146	72.3%
Parking and Transit Fund	3,226,307	1,992,828	17,479	2,010,307	62.3%
Solid Waste Fund	11,761,276	7,612,264	54,080	7,666,344	65.2%
Water/Wastewater Fund	88,110,578	55,057,567	1,368,913	56,426,480	64.0%
Special Revenue Fund Supported by Transfers from the General Fund					
Emergency Management Fund	8,465,643	6,000,102	1,011	6,001,113	70.9%
Special Revenue Fund Supported by Fees on Court Transactions					
Court Administration Fund	2,273,602	1,378,340	70,593	1,448,933	63.7%
Special Revenue Fund Supported by Fees on Residential Utility Bill					
Medical Services Program	6,853,081	3,357,716	0	3,357,716	49.0%
Special Revenue Fund Supported by Hotel/Motel Taxes					
Hotel Motel Tax Fund	21,289,589	14,721,018	0	14,721,018	69.1%

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 March was for \$571.6 million in collections. The City had collected \$602.0 million resulting in the fund being \$30.4 million or **5.3% ahead of budget**. The City Council designated \$9 million additional revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately \$21.4 million ahead of budget after the adjustment.

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, 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 \$737.12 for February 2016 which was **1.7% below prior year** and the 13th consecutive month that AWE have declined from the same time period in the prior year.

In February 2016, there were **15,777 (2.5%) more people employed** in the Oklahoma City Metropolitan Statistical Area (MSA) than in February 2015 and **unemployment increased to 3.9%** in the OKC-MSA, up slightly from the 3.6% the prior month. 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 **rig count as of April 8th was 63, down 50%** from prior year and the **15th consecutive month of decline**.

Summary

At the end of March, General Fund revenue was **\$14.6 million (4.6%) below budget** and had declined \$10.8 million (3.4%) from prior year. The under budget revenue performance was spread across most General Fund categories. Declines in sales and use tax, franchise fees, building permits and engineering related fees were the most significant categories or revenues coming in below budget. The timing of approximately \$1.6 million in payments also contributed to below budget performance but should correct itself within the next month or two and improve the below budget variance by up to a half a percentage point. **Through March, revenue exceeded expenditures by \$0.5 million**, an improvement from February when expenditures exceeded revenue by \$1.6 million.



James D. Couch
City Manager

