



City Manager Report

The City of
OKLAHOMA CITY

NO: 768

DATE: JANUARY 9, 2016

TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL

SUBJECT: INTERIM FINANCIAL REPORT THROUGH DECEMBER 31, 2015

This interim report is a budget report to provide a preliminary look at the City’s finances through December 31, 2015. This report has not been audited.

General Fund Revenue Fiscal Year 2015-2016 (FY16)

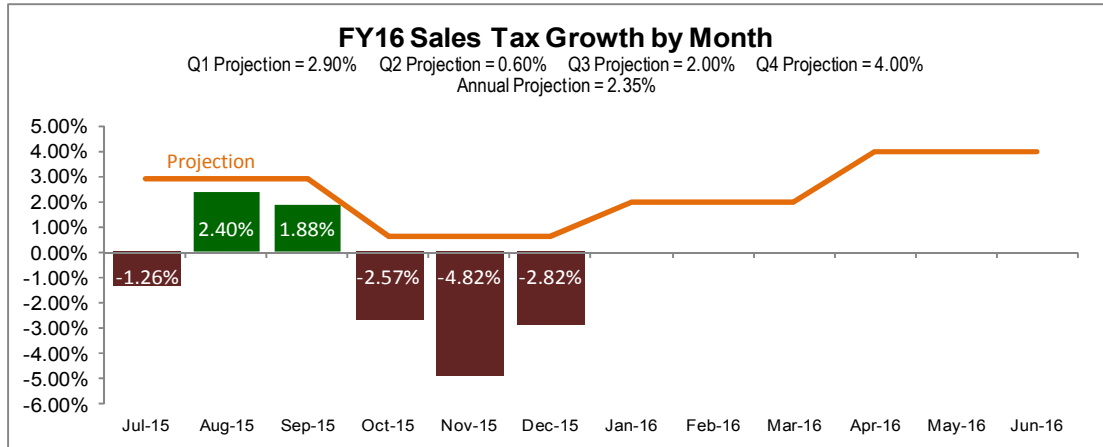
The General Fund was **\$7.9 million (3.8%) below budget** at the end of December and \$5.1 million (2.4%) below FY15 collections for the same time period. Seven of the 10 General Fund categories were below budget at the end of December, with a large use tax refund being the most significant event. Because 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; the transfer shows up in the Operating Transfers In category in the table below. 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 \$1.2 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 December 31, 2015 - 50% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	112,303,310	109,042,899	(3,260,411)	(2.9%)
Use Tax	19,346,740	11,626,269	(7,720,471)	(39.9%)
Franchise Fee	23,039,261	22,009,280	(1,029,981)	(4.5%)
Charges for Services	16,774,750	15,848,658	(926,092)	(5.5%)
Fines & Forfeitures	12,889,891	11,468,097	(1,421,794)	(11.0%)
Administrative Charges	9,818,780	9,686,520	(132,260)	(1.3%)
Licenses, Permits, and Fees	7,785,641	7,222,322	(563,319)	(7.2%)
Other Taxes	5,780,486	5,888,309	107,823	1.9%
Other Revenue	1,624,916	2,902,752	1,277,836	78.6%
Operating Transfers In	1,305,587	7,029,425	5,723,568	438.3%
TOTAL GENERAL FUND*	210,669,632	202,724,531	(7,945,101)	(3.8%)

*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 with the second quarter sales tax projected at 0.6% growth. Sales Tax was down each month during the second quarter leaving it **\$3.2 million (2.9%) below YTD budget** and \$1.3 million (1.2%) below prior year.



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

- **Retail**, the largest sales tax category, declined each month in the second quarter. The second quarter did not include holiday activity which will show up in the third quarter in the January and February checks. With declines in four out of six months, the category posted a YTD decline of (1.4%).
- **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. Second quarter growth slowed to less than 3% but with a strong first quarter, YTD growth was 4.0%. This was the only category to post growth each month in FY15 and year to date in FY16.
- **Services** were negative three of the six months and declined 2.2% YTD due primarily to declines in oil and gas related rental businesses.

Sales Tax Category	YTD Growth Rate	% of Sales Tax Total
▼ Retail	(1.4%)	50.4%
▲ Hotels & Restaurants	4.0%	15.5%
▼ Services	(2.2%)	10.9%
▼ Wholesale	(2.5%)	10.4%
▼ Utilities	(0.5%)	6.7%
▼ Manufacturing.....	(2.5%)	4.5%
▼ Miscellaneous.....	(37.6%)*	1.7%
▼ Total	(1.3%)*	100%

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

- **Wholesale** declined 2.5% YTD, with four out of six months posting negative growth.
- **Utilities** declined 0.5% YTD largely due to July's remittance which was influenced by lower temperatures.
- **Manufacturing** declined 2.5% YTD.
- **Miscellaneous**, the smallest sales tax category, contributed 1.7% of all sales tax remittances. The category declined 37.6% 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 \$11.6 million which was **\$7.7 million (39.9%) below budget** and \$7.9 million (40.5%) 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 \$1.1 million (5.71%) below budget and \$1.3 million (6.7%) below prior year.

Franchise Fees The Franchise Fees category was **\$1.0 million or 4.5% below budget** at the end of the second quarter with most remitters below budget. The category was \$0.2 million (0.9% below prior year).

Franchise Fee Revenue	Budget	Actual	Difference	%
Oklahoma Gas and Electric	12,904,529	12,237,234	(667,295)	-5.2%
Oklahoma Natural Gas	2,003,102	1,638,261	(364,841)	-18.2%
Oklahoma Electric Cooperative	805,389	734,928	(70,461)	-8.7%
Cox Cable and Cox Fibernet	3,614,226	3,519,958	(94,268)	-2.6%
City Utilities	2,471,737	2,528,613	56,876	2.3%
ATT	870,236	976,612	106,376	12.2%
Other Franchise Remitters	370,042	373,674	3,632	1.0%
TOTAL FRANCHISE FEE	23,039,261	22,009,280	(1,029,981)	-4.5%

Fines and Forfeitures The Fines and Forfeitures category was **\$1.4 million (11.4%) below budget** and \$1.4 million (10.8%) 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 down 13,141 (12%) 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 **\$0.1 million (1.3%) below budget** at the end of the second quarter due to the timing of banking fee charges that are paid based on actual costs incurred.

Charges Service Charges had collections of \$15.8 million at the end of the second quarter.

for Services The category was **\$0.9 million (5.5%) below budget** and \$0.4 million (2.4%) below prior year. The decline was attributed to the timing of \$1.4 million in project management payments from General Obligation Bonds. Also of note, Engineering-related fees for private development were \$0.4 million or 28% below budget and \$0.9 million (46.18%) below prior year. The decline in the category was minimized by the receipt of \$0.4 million in one-time revenue from FEMA as well as better than expected performance in a number of smaller revenue accounts.

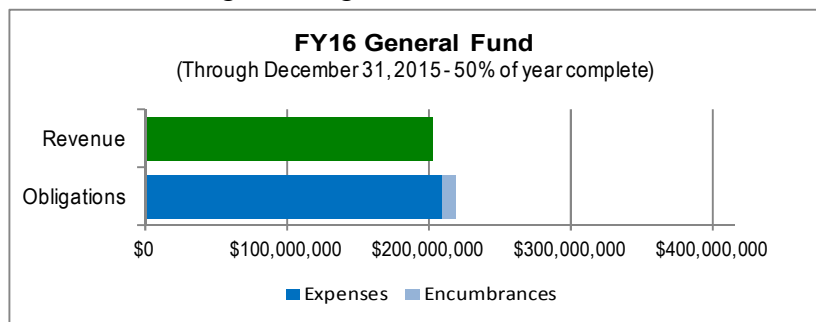
Licenses, Permits & Fees The Licenses, Permits, and Fees category was **\$0.6 million (7.2%) below budget**, due to building permit revenue that was 18% below budget and \$0.7 million (21%) below prior year. This was an improvement from the previous quarter due to the collection of \$0.3 million in permits for the 499 W. Sheridan Tower; while that single project was able to post growth for the month of December for building permits, it was not enough to meet YTD projections.

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 (1.9%) above budget** at the end of the second quarter and (0.5%) above prior year with collections of \$5.9 million. The growth largely came from vehicle tax.

Other Revenue and Operating Transfers In These categories had combined collections of \$9.9 million, which was **\$7.0 million (238%) above budget** at the end of the second quarter. 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 \$218.8 million** or 50.2% of the budget with 50% of the year complete. Only 47.8% of the revenue budget had been collected at the end of the second 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. 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 December 31, 2015 - 50% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expensed	Encumbrance	Obligations	% of Budget Obligated
Personal Services	311,500,539	152,508,550	49.0%	147	152,508,697	49.0%
Other Services	85,406,665	39,612,273	46.4%	8,676,604	48,288,877	56.5%
Supplies	9,071,743	3,382,767	37.3%	1,276,716	4,659,483	51.4%
Capital Outlay	188,649	98,438	52.2%	246	98,684	52.3%
Debt Service	10,000	2,143	21.4%	0	2,143	21.4%
Transfers	29,391,512	13,215,747	45.0%	0	13,215,747	45.0%
Total	435,569,108	208,819,917	47.9%	9,953,713	218,773,630	50.2%

*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 49.0% 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. Some changes will carry over into the third quarter before they can be fully implemented, but all changes will be retroactive to July 1st. A hiring freeze was implemented November 9th that should produce additional savings in the category to help offset declining revenue.

Other Services

The **Other Services budget was obligated at 56.5%** which was significantly higher than the percent of the year complete. Actual expenses were \$39.6 million or 46.4% of budget which was lower than the percent of year complete. The \$8.6 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 51.4%** which was also higher than the percent of year complete. Actual expenses of \$3.4 million (37.3%) were well below the percent of year complete leaving the \$1.3 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 52.3%** with most expensed by the Parks and Recreation Department on equipment. While the percentage of budget obligated was high, they were not reoccurring and the dollar value 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 the second quarter, **45% of the transfer budget was obligated** which was lower than the percent of year complete.

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 December 31, 2015)				
Category/Fund	Budget	Actual	Difference	% from Target
Sales Tax Supported Funds				
Police Sales Tax Fund	21,214,171	20,482,759	(731,412)	(3.4%)
Fire Sales Tax Fund	21,110,112	20,511,538	(598,574)	(2.8%)
Zoo Sales Tax Fund	7,018,957	6,815,230	(203,727)	(2.9%)
Enterprise Fund Supported by Utility Fees				
Stormwater Drainage Utility	8,759,577	8,949,181	189,604	2.2%
Enterprise Funds Supported by Transfers from a Trust				
Airports Fund	9,765,648	9,216,610	(549,038)	(5.6%)
Parking/Transit Fund	1,625,035	1,542,647	(83,388)	(5.1%)
Solid Waste Fund	5,459,438	5,089,099	(370,339)	(6.8%)
Water/Wastewater Fund	47,335,484	42,246,770	(5,088,714)	(10.8%)
Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund				
Emergency Management Fund	4,271,006	3,925,058	(344,948)	(8.1%)
Special Revenue Fund Supported by Fees on Court Transactions				
Court Administration Fund	924,074	848,308	(75,766)	(8.2%)
Special Revenue Fund Supported by Fees on the Residential Utility Bill				
Medical Service Program	3,416,490	3,426,542	10,052	0.3%
Special Revenue Fund Supported by Hotel/Motel Taxes				
Hotel Motel Tax Fund	10,463,298	11,005,923	542,625	5.2%

Police, Fire and Zoo Sales Taxes Sales tax was **2.9% 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 2.2% above budget** at the end of the second quarter due to utility fees.

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. All four enterprise funds were below budget at the end of the second quarter.

Emergency Management Fund The Emergency Management Fund supports the E-911 system for Oklahoma City and was **\$0.3 million (8.1%) below budget** at the end of the second quarter 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 (8.2%) below budget** at the end of the second quarter with revenue of \$0.8 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 the second quarter, the fund was **on budget** with revenue of \$3.4 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 **\$0.5 million (5.2%) above budget** at the end of the second quarter. Hotel Motel Tax collections were \$0.4 million (5.4%) above budget and \$0.1 million (1.9%) 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 50% at the end of the second quarter except the Police Sales Tax Fund which was 51.1% due to encumbrances.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through December 31, 2015 - 50% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
Sales Tax Supported Funds					
Police Sales Tax Fund	42,497,043	21,255,092	439,870	21,694,962	51.1%
Fire Sales Tax Fund	45,329,593	18,962,257	568,427	19,530,684	43.1%
Zoo Sales Tax Fund	14,279,300	6,815,181	0	6,815,181	47.7%
Enterprise Fund Supported by Utility Fees					
Stormwater Drainage Utility	16,484,516	6,891,540	520,158	7,411,698	45.0%
Enterprise Funds Supported by Transfers from a Trust					
Airports Fund	17,366,497	8,043,567	547,930	8,591,497	49.5%
Parking and Transit Fund	3,226,307	1,118,107	17,479	1,135,586	35.2%
Solid Waste Fund	11,761,276	4,992,610	65,442	5,058,052	43.0%
Water/Wastewater Fund	88,110,578	37,024,397	1,911,755	38,936,152	44.2%
Special Revenue Fund Supported by Transfers from the General Fund					
Emergency Management Fund	8,465,643	4,082,823	1,011	4,083,834	48.2%
Special Revenue Fund Supported by Fees on Court Transactions					
Court Administration Fund	2,273,602	941,858	56,345	998,203	43.9%
Special Revenue Fund Supported by Fees on Residential Utility Bill					
Medical Services Program	6,853,081	2,616,620	0	2,616,620	38.2%
Special Revenue Fund Supported by Hotel/Motel Taxes					
Hotel Motel Tax Fund	20,343,479	10,069,503	0	10,069,503	49.5%

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 December was for \$544 million in collections. The City had collected \$575.2 million resulting in the fund being \$30.9 million or **5.7% ahead of budget**. The City Council designated \$9 million additional revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately \$21.9 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 \$739.40 for November 2015 which was **4.3% below prior year** and the 10th consecutive month that AWE have declined from the same time period in the prior year.

In November 2015, there were **24,959 (4.0%) more people employed** in the Oklahoma City Metropolitan Statistical Area (MSA) than in November 2014 and **unemployment remained at 3.6%** in the OKC-MSA. 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 **December rig count was 86**, which was **down 59%** from prior year and the 11th consecutive month the rig count was lower than the same month in the prior year.

Summary

At the end of the second quarter General Fund revenue was **\$7.9 million (3.8%) below budget** and had declined \$5.1 million (2.4%) from prior year. The under budget revenue performance was spread across most General Fund categories with sales and use tax both performing below projections. Declines in building permits and engineering related fees resulted in those categories also coming in below budget.

A handwritten signature in black ink, appearing to read "James D. Couch". The signature is written in a cursive, flowing style.

James D. Couch
City Manager