



City Manager Report

The City of
OKLAHOMA CITY

NO: 897
DATE: AUGUST 30, 2016
TO: THE MAYOR AND MEMBERS OF THE CITY COUNCIL
SUBJECT: INTERIM FINANCIAL REPORT FOR FISCAL YEAR 2016

This interim report is a budget report to provide a preliminary look at the City’s finances for Fiscal Year 2016 (FY16). The Accounting Services Division has not yet finished their review and the independent auditor has not yet provided their opinion on the City Finances for FY16.

General Fund Revenue Fiscal Year 2015-2016 (FY16)

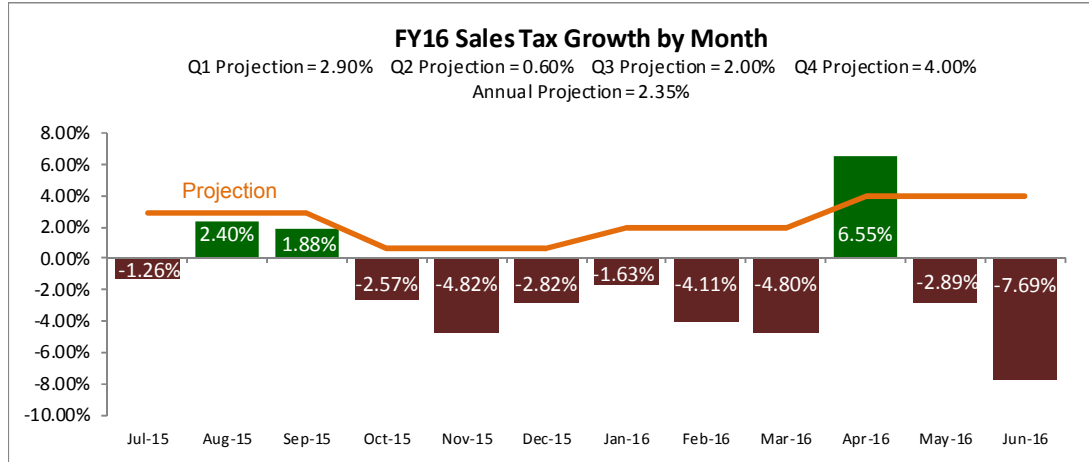
The General Fund was **\$20.7 million below budget** in FY16 and 2.6% below FY15 collections. Revenue declines were wide spread with eight of the 10 General Fund categories below budget in FY16 as shown in the table below. A large use tax refund was made in the first half of the year. Since a refund 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. The \$2.2 million in growth in the Other Revenue category was payments from Oklahoma County for the City’s share of the Resale Release funds (FY15 and FY16 sale proceeds both recorded to FY16). Resale Release fund payments can vary greatly each year.

GENERAL FUND
\$20.7 Million
BELOW BUDGET

GENERAL FUND REVENUE BY CATEGORY*				
(Through June 30, 2016 - 100% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	223,989,023	214,748,001	(9,241,022)	-4.1%
Use Tax	38,371,556	30,015,007	(8,356,549)	-21.8%
Franchise Fee	44,777,676	40,960,785	(3,816,891)	-8.5%
Charges for Services	37,570,990	35,635,889	(1,935,101)	-5.2%
Fines & Forfeitures	27,280,881	23,504,459	(3,776,422)	-13.8%
Administrative Charges	18,240,174	18,047,135	(193,039)	-1.1%
Licenses, Permits, and Fees	15,887,506	13,944,654	(1,942,852)	-12.2%
Other Taxes	11,773,449	11,582,689	(190,760)	-1.6%
Other Revenue	2,995,781	5,390,093	2,394,312	79.9%
Operating Transfers In	2,866,652	9,254,232	6,387,580	222.8%
TOTAL GENERAL FUND*	423,753,688	403,082,944	(20,670,744)	-4.9%

*Excludes budgeted Fund Balance.

Sales Tax Sales tax was the single largest revenue source in the General Fund and accounted for 54% of FY16 General Fund revenue. Sales Tax was projected to grow 2.35% in FY16 but instead **Sales Tax was \$9.2 million below budget and 1.9% below FY16.** Declines were widespread across sales tax categories with only Hotels and Restaurants ending the fiscal year with growth. Declines were largely attributed to the effects of a contracting energy sector in the local economy.



Sales Tax Detail by Category:

- **Retail**, the largest sales tax category, declined 1.4% in FY16 with nine out of 12 months performing below prior year. Collections were down in Apparel and Accessories, Electronics and Appliances, Miscellaneous Retail, Furniture and Home, and Convenience Stores.
- **Hotel and Restaurants**, the second largest sales tax category, grew 4.4% in FY16 and was the only category to post positive annual growth. The long running trend of posting monthly growth ended in June when collections declined 1.9% due to the reclassification of a business.
- **Services** declined 2.0% in FY16 with seven of 12 months performing below prior year. The decline was attributed primarily to a decrease from oil and gas related rental businesses.
- **Wholesale** declined 6.9% in FY16 with nine out of 12 months performing below last year.
- **Utilities** declined 9.0% in FY16. Seven out of 12 months performed below prior year including the last five months. The downturn was attributed to mild temperatures during the fiscal year and lower fuel prices.

Sales Tax Category	Annual Growth Rate	% of Sales Tax Total
▼ Retail	(1.4%)	50.8%
▲ Hotels & Restaurants	4.4%	17.5%
▼ Services	(2.0%)	11.1%
▼ Wholesale	(6.9%)	10.0%
▼ Utilities	(9.0%)	5.5%
▼ Manufacturing	(7.8%)	3.6%
▼ Miscellaneous	(21.4%)	1.5%
▼ Total	(2.3%)*	100%

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

- **Manufacturing** declined 7.8% in FY16 with seven out of 12 months performing below FY15.
- **Miscellaneous**, the smallest sales tax category declined 21.4% 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 FY16 collections of \$30 million which was **\$8.4 million below budget** and 20.8% below prior year. 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, transferred to the General Fund in December and recorded in the *Operating Transfers In* category. Excluding the refund, Use Tax was \$1.7 million below budget and 3.3% below prior year.

Franchise Fees The Franchise Fees category is the second largest revenue category accounting for 10% of FY16 sales tax collections. This category had collections of \$41 million which was **\$3.8 million below budget** and 5.4% below prior year with most remitters below budget. Mild temperatures and low fuel costs resulted in lower utility sales. City Utilities were above budget due to timing of payments.

Franchise Fee Revenue	Budget	Actual	Difference	%
Oklahoma Gas and Electric	21,791,309	19,936,184	(1,855,125)	-8.5%
Oklahoma Natural Gas	6,536,708	4,502,741	(2,033,967)	-31.1%
Oklahoma Electric Cooperative	1,439,148	1,227,168	(211,980)	-14.7%
Cox Cable and Cox Fibernet	7,228,449	7,003,573	(224,876)	-3.1%
City Utilities	4,875,000	5,264,473	389,473	8.0%
ATT	2,104,823	2,330,640	225,817	10.7%
Other Franchise Remitters	802,239	696,005	(106,234)	-13.2%
TOTAL FRANCHISE FEE	44,777,676	40,960,785	(3,816,891)	-8.5%

Fines and Forfeitures The Fines and Forfeitures category had FY16 collections of \$23.5 million which was **\$3.8 million below budget** and 9.8% below prior year. The below budget performance was widespread across the various sources within the category. Cases filed with the Court were down 7.7% in FY16 compared to FY15.

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 FY16 collections of \$18.0 million and was **\$0.2 million below budget** in FY16 and 0.2% below prior year due to the timing of fourth quarter banking fee charges that are paid based on actual costs incurred.

Charges for Services Service Charges had FY16 collections of \$35.6 million. The category was **\$1.9 million below budget** and 2.3% below prior year. The below budget performance was attributed to engineering-related fees for private development which were \$1.2

million below budget and 40.3% below prior year and GO Bond payments which were \$2.0 million below budget and 3.38% 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.

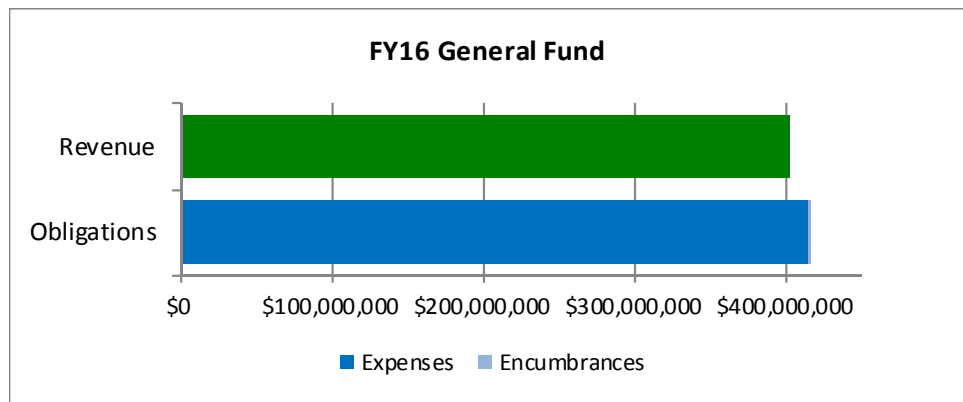
Licenses, Permits & Fees The Licenses, Permits, and Fees category had FY16 collections of \$13.9 million which was **\$1.9 million below budget** and 10.5% below prior year. The decline was largely attributed to building permit revenue that was \$1.7 million below budget and 22.91% below prior year.

Other Taxes Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category had FY16 collections of \$11.6 million which was **\$0.2 million below budget** and 0.3% below prior year. The decline was largely attributed to vehicle tax.

Other Revenue and Operating Transfers In These categories had combined FY16 collections of \$14.6 million, which were **\$8.8 million above budget** and 146% above prior year. Growth was largely from the \$5.5 million transfer from reserves for the Use Tax refund and a \$2.2 million payment from Oklahoma County for the City’s share of the Resale Release funds. Resale Release payments are only made to the City by the County when the fund balances 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. Transfers from the Civic Center were \$0.7 million above budget.

General Fund Obligations Fiscal Year 2015-2016

In FY16 the General Fund **budget was obligated at 95.5% and exceeded revenue collections by \$13.3 million**. Variances between collected revenue and obligations are common and staff continuously monitored both to ensure the two stayed relatively in sync as the year progressed. Due to the trend of lower revenue growth several measures were taken to control expenses, including freezing capital spending, delaying construction of a new fire station and implementing a hiring freeze on November 9, 2015 to help reduce costs in FY16. Obligations were reviewed for trends or spending levels that may be of concern and those are noted on the following page. Obligations include expenses that have been made, as well as encumbrances for goods and services that have been ordered but not yet received.



General Fund Obligations By Category						
(Through June 30, 2016 - 100% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	311,143,510	304,330,299	97.8%	2,800	304,333,099	97.8%
Other Services	85,312,256	76,796,761	90.0%	937,618	77,734,379	91.1%
Supplies	8,641,269	7,120,649	82.4%	218,331	7,338,980	84.9%
Capital Outlay	296,225	295,604	99.8%	246	295,850	99.9%
Debt Service	10,000	4,260	42.6%	0	4,260	42.6%
Transfers	30,496,040	26,680,169	87.5%	0	26,680,169	87.5%
Total	435,899,300	415,227,743	95.3%	1,158,995	416,386,738	95.5%

*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 \$311.1 million budget for **Personal Services was 97.8% obligated** which represents a savings of \$6.8 million in FY16. The savings was largely attributed to a hiring freeze implemented November 9th that was successful in helping offset declining revenue.

Other Services The \$85.3 million **Other Services budget was obligated at 91.1%** or \$7.6 million below budget in FY16. The \$0.1 million encumbered is for services that have not yet been provided. The encumbered funds may be “rolled over” to FY17 through a budget amendment.

Supplies The \$8.6 million **Supplies budget was obligated at 84.9%** which was \$1.3 million below budget in FY16. The \$0.2 million encumbered may be “rolled over” to the FY17 budget through a budget amendment.

Capital Outlay & Debt Service The \$0.3 million **Capital Outlay budget was 99.9% obligated**, most of which was Parks and Recreation Department equipment. The **Debt Service budget was obligated at 42.6%**. No debt was paid from the General Fund. The expense recorded was to pay the bank paying agent charges associated with General Obligation Bonds.

Transfers The \$30.5 million **transfers budget was 87.5% obligated** and included an \$8 million transfer to the capital improvement fund for street maintenance as authorized by Council Resolution on September 1, 2015 and funded through fund balance. Due to the decline in revenue, over \$2.1 million in transfers to the Capital Improvement Fund were held to keep expenditures down.

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.

Special Revenue and Enterprise Funds Revenue*				
(Through June 30, 2016)				
Category/Fund	Budget	Actual	Difference	% from Target
Sales Tax Supported Funds				
Police Sales Tax Fund	41,970,295	40,247,131	(1,723,164)	(4.1%)
Fire Sales Tax Fund	42,081,721	40,429,841	(1,651,880)	(3.9%)
Zoo Sales Tax Fund	13,999,314	13,423,658	(575,656)	(4.1%)
Enterprise Fund Supported by Utility Fees				
Stormwater Drainage Utility	17,377,456	18,041,629	664,173	3.8%
Enterprise Funds Supported by Transfers from a Trust				
Airports Fund	17,366,497	15,990,404	(1,376,093)	(7.9%)
Parking/Transit Fund	3,226,307	2,585,687	(640,620)	(19.9%)
Solid Waste Fund	10,761,276	9,815,051	(946,225)	(8.8%)
Water/Wastewater Fund	87,007,837	77,338,279	(9,669,558)	(11.1%)
Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund				
Emergency Management Fund	8,082,460	7,622,425	(460,035)	(5.7%)
Special Revenue Fund Supported by Fees on Court Transactions				
Court Administration Fund	2,112,037	1,927,586	(184,451)	(8.7%)
Special Revenue Fund Supported by Fees on the Residential Utility Bill				
Medical Service Program	6,853,081	6,880,296	27,215	0.4%
Special Revenue Fund Supported by Hotel/Motel Taxes				
Hotel Motel Tax Fund	21,236,960	21,025,710	(211,250)	(1.0%)

Police, Fire and Zoo Sales Taxes Sales tax was **4.1% 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 **\$0.7 million above budget** and 3.1% above prior year at year end 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 were below budgeted amounts and not as much revenue needed to be transferred from the trusts. All four enterprise funds finished FY16 transfers from their respective trust below budget.

Emergency Management Fund The Emergency Management Fund supports the E-911 system for Oklahoma City. Revenue was **\$0.5 million below budget** in FY16 and 5.7% below prior year due to a decline in tariffs on phone lines and a reduction in General Fund transfer needed to 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. In FY16, the fund was **\$0.2 million below budget** and 6.3% below prior year. This fund is related to Fine revenue in the General Fund, which was also below budget for the year due to fewer cases filed with the Municipal Court.

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. In FY16 the fund was **on budget** with revenue of \$6.8 million and flat compared to prior year. 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 **\$0.2 million below budget** and 2.9% below prior year. **Hotel Tax collections were \$0.4 million above budget** and flat when compared to 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 100% for FY16. Encumbrances may be “rolled over” to FY17 budgets through a budget amendment, if needed.

Summary of Budget vs. Obligations in Other Operating Funds (Through June 30, 2016 - 100% of the year complete)					
Fund	Budget	Expense	Encumbrance	Obligations	Pct
Sales Tax Supported Funds					
Police Sales Tax Fund	42,497,043	42,537,909	213,909	42,751,818	100.6%
Fire Sales Tax Fund	45,329,593	38,100,871	17,366	38,118,237	84.1%
Zoo Sales Tax Fund	14,279,300	13,440,670	0	13,440,670	94.1%
Enterprise Fund Supported by Utility Fees					
Stormwater Drainage Utility	16,484,516	13,966,322	100,280	14,066,602	85.3%
Enterprise Funds Supported by Transfers from a Trust					
Airports Fund	17,366,497	16,320,606	12,981	16,333,587	94.1%
Parking and Transit Fund	3,226,307	2,640,858	5	2,640,863	81.9%
Solid Waste Fund	11,761,276	10,208,412	31,951	10,240,363	87.1%
Water/Wastewater Fund	88,110,578	77,278,717	742,475	78,021,192	88.5%
Special Revenue Fund Supported by Transfers from the General Fund					
Emergency Management Fund	8,465,643	7,882,969	82	7,883,051	93.1%
Special Revenue Fund Supported by Fees on Court Transactions					
Court Administration Fund	2,273,602	1,925,021	(12,734)	1,912,287	84.1%
Special Revenue Fund Supported by Fees on Residential Utility Bill					
Medical Services Program	6,853,081	4,777,137	0	4,777,137	69.7%
Special Revenue Fund Supported by Hotel/Motel Taxes					
Hotel Motel Tax Fund	21,289,589	20,979,623	0	20,979,623	98.5%

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 FY16 was for \$596.2 million in collections. The City had collected \$627.9 million resulting in the fund being \$31.8 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 \$22.8 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, for production and non-supervisory workers 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. In FY16, the AWE was \$740.69, the third straight year of decline. However, the latest number available was a preliminary AWE of \$759.35 for June 2016 which was **2.5% above prior year. June was the 3rd consecutive month of growth over prior year**, and may indicate a turning point in the downward trend after a cycle of 14 consecutive months where AWE declined from the same time period in the prior year.

In June 2016, the labor force in the Oklahoma City Metropolitan Statistical Area (OKC-MSA) remained flat. However, **Unemployment increased to 4.7%** from 4.2% in May 2016 and 4.2% from one year ago. When AWE and employment are considered together it indicates less people were employed but those employed were earning more on average.

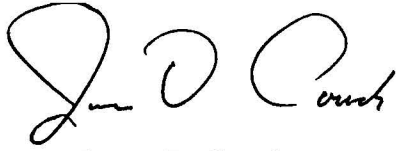
- **Rig Count.** The number of active drilling rigs provides a current measure of activity in the energy sector. Since 2006, the changes in sales tax revenue and rig count have moved in the same direction the majority of time. Due to the correlation between the two, staff has begun to monitor this indicator 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. As of August 19th the **rig count was 62, down 41%** from prior year, down 71% from the high of 214 in October 2014 and the **18th consecutive month of decline**.

Summary

The General Fund finished FY16 **\$20.7 million below budget** and had declined 2.6% from prior year. The under budget revenue performance was spread across most General Fund categories. At year end, **obligations exceeded revenue by \$13.3 million**. Fund Balance will be used to make up the difference. This will leave the General Fund at 14.6% in unbudgeted fund balance to begin FY17, which is within the City's financial policy to maintain 8% to 15% in unbudgeted fund balance.

Although the FY17 budget projected modest growth it is still 4.9% smaller than the FY16 budget. The hiring freeze implemented in November 2015 has remained in effect and staff will continue to monitor activity in the local and national economy. The State of Oklahoma showed

to be in recession, as measured by gross domestic product (GDP), for at least the first three quarters of FY16. The 4th quarter GDP will not be released by the Bureau of Economic Analysis (BEA) until December 2016. According to the BEA the Oklahoma economy began to contract in the 2nd quarter of calendar year 2015 (the end of FY15) and continued to contract through the 1st quarter of calendar year 2016.

A handwritten signature in black ink, appearing to read "James D. Couch". The signature is written in a cursive style with a large initial "J" and "C".

James D. Couch
City Manager