



# City Manager Report

## The City of OKLAHOMA CITY

**NO:** 924

**DATE:** OCTOBER 25, 2016

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

**SUBJECT:** INTERIM FINANCIAL REPORT THROUGH THE FIRST QUARTER OF FISCAL YEAR 2017

This interim report is a budget report to provide a preliminary look at the City's finances through the first quarter of Fiscal Year 2017 which ended on September 30, 2016. This report has not been audited.

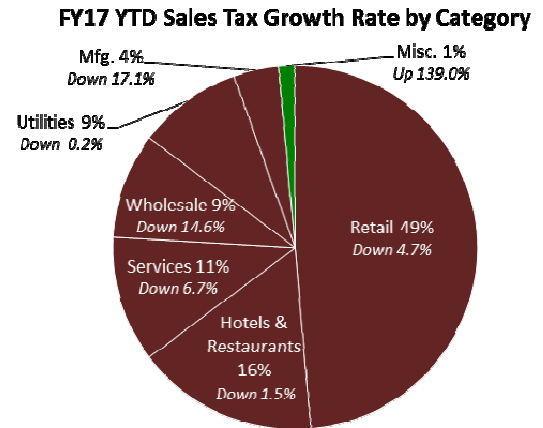
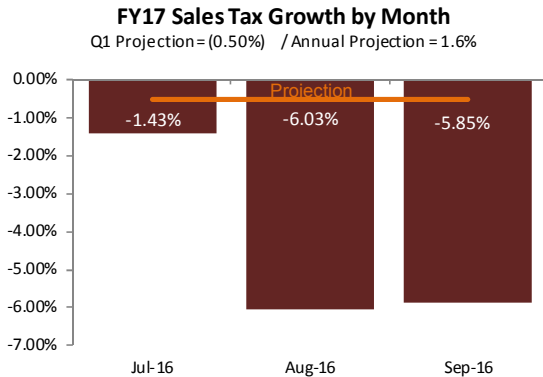
### General Fund Revenue Fiscal Year 2016-2017 (FY17)

The General Fund was **\$2.8 million below budget** through September 30, 2016 and 3.2% below FY16 collections. Sales Tax declines have been wide spread across sub-categories and Use Tax continues to be sporadic. General Fund Revenue collections have improved from FY16 with only six of the 10 General Fund categories below budget through the first quarter of FY17. When sales and use tax are excluded, the other eight categories were \$1 million above budget. Growth in Service Charges is largely attributed to FY16 GO Bond Payments being made in FY17.

GENERAL FUND REVENUE BY CATEGORY*				
(Through September 30, 2016 - 25% of the year complete)				
Category	Budget	Actual	Difference	Percentage
Sales Tax	54,915,193	52,719,214	(2,195,979)	-4.0%
Use Tax	9,475,068	7,892,047	(1,583,021)	-16.7%
Franchise Fee	11,380,192	11,380,827	635	0.0%
Charges for Services	7,676,100	9,199,548	1,523,448	19.8%
Fines & Forfeitures	5,458,185	5,536,886	78,701	1.4%
Administrative Charges	5,315,372	5,675,266	359,894	6.8%
Licenses, Permits, and Fees	3,818,082	3,394,283	(423,799)	-11.1%
Other Taxes	3,194,590	2,966,071	(228,519)	-7.2%
Other Revenue	1,123,424	832,772	(290,652)	-25.9%
Operating Transfers In	175,000	150,000	(25,000)	-14.3%
<b>TOTAL GENERAL FUND*</b>	<b>102,531,206</b>	<b>99,746,915</b>	<b>(2,784,291)</b>	<b>-2.7%</b>

\*Excludes budgeted Fund Balance.

*Sales Tax* Sales tax was the single largest revenue source in the General Fund and accounted for 53% of FY17 General Fund revenue. Sales Tax was projected to decline 0.50% in the first quarter but instead **declined 4.5% from prior year** and was **\$2.2 million below budget**. Declines were widespread across sales tax categories.



Sales Tax Detail by Category:

- **Retail**, the largest sales tax category, declined 4.7% in the first quarter with all three months down. Collections were down in most retail categories including Building Materials, Food and Beverage Stores, Clothing, Electronics and Appliances, and General Merchandise Stores.
- **Hotel and Restaurants**, the second largest sales tax category, ended the long running trend of monthly growth in June 2016. The category declined 1.5% in the first quarter.
- **Services** declined 6.7% in the first quarter.
- **Wholesale** had five consecutive months of decline with the first quarter down 14.6%.
- **Utilities** declined 0.2% in the first quarter which was attributed to mild temperatures and lower fuel prices.
- **Manufacturing** declined 17.1% in the first quarter with each of the three months experiencing double digit declines.
- **Miscellaneous**, the smallest sales tax category, had growth of 139.0% due primarily to remittances from unclassified businesses. As businesses are properly classified future remittances will move to one of the other categories.

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

*Use Tax* Use tax, the third largest budgeted General Fund revenue category, had first quarter collections of \$7.9 million which was **\$1.6 million below budget** and **7.2% above last year** due to a large refund made in FY16.

*Franchise Fees* The Franchise Fees category is the second largest revenue category accounting for 11% of FY17 General Fund collections. This category had collections of \$11.4 million which was **on budget** but 4.2% below prior year. Weather and higher fuel

costs resulted in higher utility sales for electric and natural gas remitters; City Utilities were below budget due to timing of payments; and Franchise fees from cable/video remitters were \$0.1 million below budget and 2.4% below prior year. The decline from cable/video remitters was attributed to a national trend of cable subscribers cancelling pay TV services and opting for online video services.

Franchise Fee Revenue	Budget	Actual	Difference	%
Oklahoma Gas and Electric	6,746,159	6,795,279	49,120	0.7%
Oklahoma Natural Gas	617,051	823,252	206,201	33.4%
Oklahoma Electric Cooperative	370,014	411,753	41,739	11.3%
Cox Cable and Cox Fibernet	1,782,500	1,758,869	(23,631)	-1.3%
City Utilities	1,132,455	977,526	(154,929)	-13.7%
ATT	556,534	442,769	(113,765)	-20.4%
Other Franchise Remitters	175,479	171,380	(4,099)	-2.3%
<b>TOTAL FRANCHISE FEE</b>	<b>11,380,192</b>	<b>11,380,827</b>	<b>635</b>	<b>0.0%</b>

*Fines and Forfeitures* The Fines and Forfeitures category had YTD collections of \$5.5 million which was **\$0.1 million above budget** but 7.6% below prior year. Cases filed with the Court were down 7.7% YTD compared to FY16.

*Admin. Charges* Administrative charges are charges assessed to other City funds and entities for the administrative services provided by General Fund departments. This category had YTD collections of \$5.7 million and was **\$0.4 million above budget** and 19.2% above prior year. The current year growth was from banking and Civic Center charges that are paid based on actual costs incurred.

*Charges for Services* Service Charges had YTD collections of \$9.2 million. The category was **\$1.5 million above budget** and 11.3% above prior year. Growth was attributed to the timing of \$1.3 million in FY16 GO Bond payments made in FY17. When the GO Bond payments were excluded, the category was still \$0.3 million above budget due to the timing of payments and better than expected performance in a number of smaller revenue accounts.

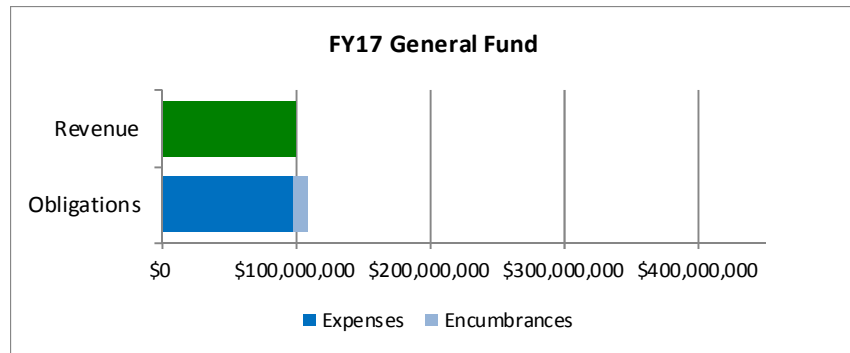
*Licenses, Permits & Fees* The Licenses, Permits, and Fees category had YTD collections of \$3.4 million which was **\$0.4 million below budget** and 9.4% below prior year. The decline was largely attributed to building permit revenue that was \$0.3 million below budget and 24% below prior year.

*Other Taxes* Other taxes, includes sub-categories such as taxes on alcoholic beverages, vehicles, motor fuel and tobacco. The revenue category had YTD collections of \$3.0 million which was **\$0.2 million below budget** and 2.6% below prior year. The decline was largely attributed to a decline in sales subject to the excise tax on tobacco products.

*Other Revenue and Operating Transfers In* These categories had combined YTD collections of \$1.0 million, which was **\$0.3 million below budget**. The decline was widespread across the various revenue accounts including interest, rebates, sale of city property, and operating transfers in.

### General Fund Obligations Fiscal Year 2016-2017

Through the first quarter, General Fund Obligations totaled 26.3% of the budget and exceeded revenue collections by \$9.2 million. Obligations include expenses that have been made, as well as encumbrances for goods and services that have been ordered but not yet received.



Variations between collected revenue and obligations are common and staff continuously monitored both to ensure the two stayed relatively in sync as the first quarter progressed. Due to the continued trend of lower revenue growth, several measures were taken to control expenses including asking General Fund Departments to submit a 1.25% mid-year budget reduction by October 7, 2016; freezing \$2.25 million in capital spending; and continuing a hiring freeze implemented on November 9, 2015 to help reduce costs in the current year and prepare for the FY18 budget.

General Fund Obligations By Category						
(Through September 30, 2016 - 25% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	301,444,303	68,773,809	22.8%	329,974	69,103,783	22.9%
Other Services	83,822,503	18,718,888	22.3%	9,667,922	28,386,810	33.9%
Supplies	8,814,171	1,537,545	17.4%	1,348,005	2,885,550	32.7%
Capital Outlay	0	0	0.0%	0	0	0.0%
Debt Service	10,000	2,043	20.4%	0	2,043	20.4%
Transfers	20,601,361	8,563,359	41.6%	0	8,563,359	41.6%
<b>Total</b>	<b>414,692,338</b>	<b>97,595,644</b>	<b>23.5%</b>	<b>11,345,901</b>	<b>108,941,545</b>	<b>26.3%</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* The Personal Services category is significant since it represents 73% of the General Fund budget. Pay cycles cross monthly accounting periods so payroll cost is compared to the percentage of payrolls paid rather than the percent of year complete; As shown in the table above, the budget for **Personal Services** was **22.9% obligated** which was slightly below the 23% of payrolls paid.

Collective bargaining agreements have not been finalized with the Fraternal Order of Police (FOP), International Association of Fire Fighters (IAFF), or American Federation of State, County, and Municipal Employees (AFSCME). A hiring freeze implemented November 9, 2015 continued to be in effect and generated a savings of \$0.2 million in the first quarter.

*Other Services* The **Other Services budget was obligated at 33.9%** which was above the 25% of year completed due to \$9.7 million encumbered. It is not uncommon at this point in the year to have large encumbrances for projected annual expenses such as utility services or contract payments. As the year progresses, encumbrances will be reduced as services are provided.

*Supplies* The **Supplies budget was obligated at 32.7%**, which was also above the 25% of year completed, due to \$1.3 encumbered for supplies that have yet to be provided.

*Capital Outlay & Debt Service* The Capital Outlay budget was zero at the end of the first quarter and no funds were obligated. The **Debt Service Fund was obligated at 20.4%**. 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* The **transfers budget was 41.6% obligated**. 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. Due to the decline in revenue over \$2.25 million in transfers to the Capital Improvement Fund are being held to keep expenditures below the annual budget 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 on the following page with discussion of the funds' revenue situation.

*Police, Fire and Zoo Sales Taxes* Sales tax was **4.0% below budget** at the end of the first quarter in the special rev funds supported by the dedicated Police, Fire, and Zoo Sales Taxes. Min revenue collections from interest earnings, sale of city property, leases of property, and reimbursement from federal grants for overtime accounted for additional fund variances.

*Stormwater Drainage Utility Fund* The Stormwater Drainage Utility Fund was **\$0.5 million below budget** and 21 below prior year due to the timing of transfers for capital maintenance projects.

Special Revenue and Enterprise Funds Revenue*				
(Through September 30, 2016)				
Category/Fund	Budget	Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	10,346,680	9,957,775	(388,905)	(3.8%)
Fire Sales Tax Fund	10,327,267	9,917,326	(409,941)	(4.0%)
Zoo Sales Tax Fund	3,432,200	3,297,341	(134,860)	(3.9%)
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	4,062,506	3,579,523	(482,983)	(11.9%)
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	5,005,854	4,867,057	(138,797)	(2.8%)
Parking/Transit Fund	1,099,969	1,081,323	(18,646)	(1.7%)
Solid Waste Fund	3,354,441	2,904,295	(450,146)	(13.4%)
Water/Wastewater Fund	28,849,674	27,231,910	(1,617,764)	(5.6%)
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>				
Emergency Management Fund	2,580,823	3,927,559	1,346,736	52.2%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	449,818	492,614	42,796	9.5%
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	1,696,210	1,706,912	10,702	0.6%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Tax Fund	5,782,009	5,688,842	(93,167)	(1.6%)

*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 were below budget** on transfers from their respective trust.

*Emergency Management Fund* The Emergency Management Fund supports the E-911 system for Oklahoma City. Revenue was **\$1.3 million above budget** at the end of the first quarter and 163.2% above prior year due to the timing of transfers from the General Fund that support operations. Telephone tariffs were \$0.2 million above budget.

*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. At the end of the first quarter, the fund was **\$0.1 million above budget** but 7.3% below prior year. This fund is related to Fine revenue in the General Fund, which was also above budget for the year but below prior 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. At the end of the first quarter the fund was **on budget** with revenue of \$1.7 million and flat compared to prior year.

*Hotel Tax Fund* This fund was **\$0.1 million below budget** and 9.9% above prior year due to the timing of debt payments. **Hotel Tax collections were \$0.1 million below budget** and 5.86% below 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 next page. Each fund was at or below the expected level of 25% for FY17.

Summary of Budget vs. Obligations in Other Operating Funds (Through September 30, 2016 - 25% of the year complete)					
Fund	Annual Budget	YTD Expense	YTD Encumbrance	YTD Obligations	Pct
<b>Sales Tax Supported Funds</b>					
Police Sales Tax Fund	42,165,878	8,910,842	795,716	9,706,558	23.0%
Fire Sales Tax Fund	44,908,396	8,834,279	2,252,538	11,086,817	24.7%
Zoo Sales Tax Fund	14,188,917	3,294,951	0	3,294,951	23.2%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	17,227,366	3,113,614	382,615	3,496,229	20.3%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	17,602,492	3,890,941	94,925	3,985,866	22.6%
Parking and Transit Fund	4,099,079	678,992	6,968	685,960	16.7%
Solid Waste Fund	11,830,749	2,240,650	97,011	2,337,661	19.8%
Water/Wastewater Fund	89,553,472	18,055,423	1,730,051	19,785,474	22.1%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	9,377,816	1,957,835	1,274	1,959,109	20.9%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,345,465	392,960	84,575	477,535	20.4%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,853,081	1,343,278	0	1,343,278	19.6%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	22,412,486	5,210,675	0	5,210,675	23.2%

### 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 the first quarter of FY17 was for \$622.2 million in collections. The City had collected \$654.3 million resulting in the fund being \$32.1 million or **5.2% ahead of budget**. The City Council designated \$9 million additional revenue for sidewalk improvements on December 3, 2013; leaving the fund approximately \$23.1 million ahead of budget after the adjustment.

### Economic Factors

- **Income.** Average Weekly Earnings (AWE) for the private sector in the Oklahoma City metropolitan area represents wages plus other earnings, such as bonuses, for production

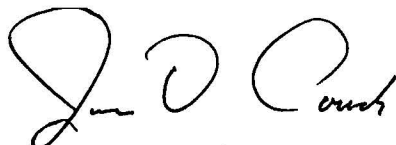
and non-supervisory workers and serves as an indicator of the purchasing power of the working population. The more people earn, the more they can spend on items subject to sales tax. In August 2016, the preliminary AWE was \$767.56 which was **2.3% above prior year. August was the 5<sup>th</sup> consecutive month of growth over prior year** after a 14-month cycle where AWE declined year-over-year.

- **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 monitors 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 October 14<sup>th</sup> the **rig count was 73, down 20%** from prior year and down 66% from the high of 214 in October 2014. Although October will be the 21<sup>st</sup> month of decline, it will also be the fifth consecutive month of growth from a count of 57 in May 2016.

### **Summary**

At the end of the first quarter General Fund revenue was **\$2.8 million below YTD budget** and 3.2% below prior year. Declines in sales and use tax, and building permits were the most significant revenues coming in below budget. If Sales and Use Tax were excluded, General Fund revenue would have been \$1.0 million above budget. Franchise Fees were on budget, Fines and Forfeitures were slightly above budget, but below prior year due to the number of cases filed with the Court being down, Service Charges were \$1.3 million above budget due to FY16 GO Bond Payments being made in FY17, and Administrative Service Charges were above budget due to charges paid on actual costs incurred.

**Obligations exceeded revenue by \$9.2 million YTD** due to departments encumbering funds for a full year of services or supplies that will then be paid out as the service or supply is provided. Examples of annual encumbrances include reoccurring monthly services such as utilities or service contract payments. However, **revenue was \$2.2 million above expenses YTD.** To ensure revenue continues to cover expenses, several measures were taken to control expenses in the current fiscal year including asking General Fund Departments to submit a 1.25% mid-year budget reduction, freezing \$2.25 million in capital spending, and continuing a hiring freeze.



James D. Couch  
City Manager