



# City Manager Report

The City of  
**OKLAHOMA CITY**

**NO: 967**

**DATE: JANUARY 31, 2017**

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

**SUBJECT: INTERIM FINANCIAL REPORT AS OF DECEMBER 31, 2016**

This interim report is a budget report to provide a preliminary look at the City’s finances through the second quarter of Fiscal Year 2017 which ended on December 31, 2016. This report has not been audited.

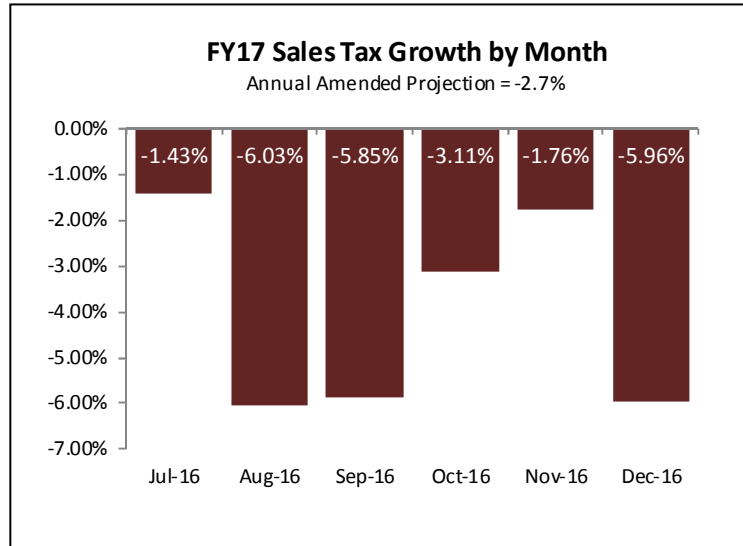
**General Fund Revenue Fiscal Year 2016-2017 (FY17)**

The General Fund was **\$3.9 million below the amended budget** through December 31, 2016 and 3.3% below FY16 collections. Seven of the 10 General Fund categories were below budget through the second quarter of FY17. When use tax is excluded, the other eight categories were \$1.2 million below budget. Sales Tax had been the most significant category in decline but a mid-year budget reduction of \$9.3 million, spread throughout the fiscal year, put the category on target at the end of the second quarter. Growth in Service Charges is largely attributed to FY16 GO Bond Payments being made in FY17.

<b>GENERAL FUND REVENUE BY CATEGORY*</b>				
(Through December 31, 2016 - 50% of the year complete)				
<b>Category</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>	<b>Percentage</b>
Sales Tax	104,620,513	104,620,113	(0)	0.0%
Use Tax	18,950,136	16,251,612	(2,698,524)	-14.2%
Franchise Fee	21,852,197	21,513,946	(338,251)	-1.5%
Charges for Services	16,415,503	17,246,905	831,402	5.1%
Fines & Forfeitures	10,933,728	10,426,469	(507,260)	-4.6%
Administrative Charges	11,858,007	12,026,383	168,376	1.4%
Licenses, Permits, and Fees	7,229,368	6,524,965	(704,403)	-9.7%
Other Taxes	5,997,646	5,731,461	(266,185)	-4.4%
Other Revenue	2,018,169	1,575,916	(442,253)	-21.9%
Operating Transfers In	175,000	205,300	30,300	17.3%
<b>TOTAL GENERAL FUND*</b>	<b>200,050,267</b>	<b>196,123,069</b>	<b>(3,927,198)</b>	<b>-2.0%</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 down every month and had **declined 4.1% through the end of the second quarter**. Due to the amended budget, Sales Tax was on target.



Declines were widespread across sales tax categories:

- **Retail**, the largest sales tax category, declined 3.7% through the first half of the year with all six months down. More than 65% of the decline in retail was from Building Materials and Food and Beverage.
- **Hotel and Restaurants**, the second largest sales tax category, ended the long running trend of monthly growth in June 2016 and has been sporadic since. The category declined 0.4% YTD but did post growth in November and December.
- **Services** declined 5.8% through the second quarter with the last five months negative.
- **Wholesale** was the only other category, besides retail, to have six consecutive months of decline; the category was down 12.5% YTD.
- **Utilities** grew 1.1% YTD; growth was attributed to temperatures and fuel prices.
- **Manufacturing** declined 16.4% YTD with five of six months posting double digit declines.
- **Miscellaneous**, the smallest sales tax category, had growth of 24.1% 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, experienced collections of \$16.3 million which was **\$2.7 million below budget but 39.8% above last year** due to a large refund made in FY16. When the refund is excluded, the category was 10.91% below last year.

*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 \$21.5 million which was **\$0.3 million below budget** and 2.3% below prior year. Electric and Gas franchise fees were largely impacted by weather and fuel rates; City Utilities were below budget due to timing of payments; and Franchise fees from cable/video remitters were \$0.4 million below budget and 5.75% below prior year.

The decline from cable/video remitters may be 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	12,169,701	12,037,072	(132,629)	-1.1%
Oklahoma Natural Gas	1,326,338	1,715,711	389,373	29.4%
Oklahoma Electric Cooperative	693,677	723,271	29,594	4.3%
Cox Cable and Cox Fibernet	3,565,000	3,396,550	(168,450)	-4.7%
City Utilities	2,639,460	2,355,621	(283,839)	-10.8%
ATT	1,113,068	839,907	(273,161)	-24.5%
Other Franchise Remitters	344,953	445,813	100,860	29.2%
<b>TOTAL FRANCHISE FEE</b>	<b>21,852,197</b>	<b>21,513,946</b>	<b>(338,251)</b>	<b>-1.5%</b>

*Fines and Forfeitures* The Fines and Forfeitures category had YTD collections of \$10.4 million which was **\$0.5 million below budget** and 9.1% below prior year. Cases filed with the Court were down 4.0% YTD compared to FY16.

*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 YTD collections of \$12.0 million and was **\$0.2 million above budget** and 24.2% above prior year. The current year growth was from timing of banking charges and administrative charges associated with abatement of nuisances. Growth over prior year is due to the reclassification of some revenue accounts from the Transfers category to the Administrative Charges category.

*Charges for Services* Service Charges had YTD collections of \$17.2 million. The category was **\$0.8 million above budget** and 8.8% above prior year. Growth was attributed to the timing of \$1.3 million in FY16 GO Bond payments made in FY17. When the FY16 GO Bond payments were excluded, the category was \$0.5 million below budget due largely to the timing of first quarter GO Bond payments which are now scheduled to be paid in the third quarter. In addition, Engineering Fees for Private Development were \$0.2 million below budget; parks fees were \$0.1 million below budget; and Refunds were \$0.1 million below budget. Timing of payments from several smaller revenue accounts helped offset the declines.

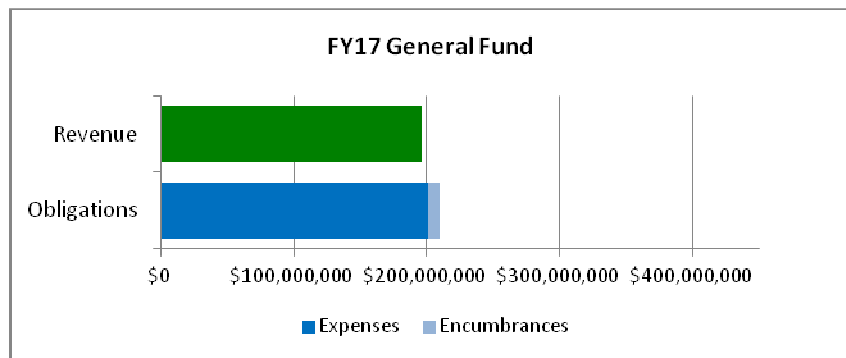
*Licenses, Permits & Fees* The Licenses, Permits, and Fees category had YTD collections of \$6.5 million which was **\$0.7 million below budget** and 9.7% below prior year. The decline was largely attributed to building related permit revenue that was \$0.5 million below budget and Police Alarm Fees that were \$0.1 million below budget.

*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 \$5.7 million which was **\$0.3 million below budget** and 2.7% 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 \$1.8 million, which was **\$0.4 million below budget**. The decline was attributed to interest falling short of projections and the timing of payments from the County for Resale Release Funds.

### General Fund Obligations Fiscal Year 2016-2017

Through the first half of the year, General Fund **Obligations totaled 50.7% of the budget and exceeded revenue collections by \$14.0 million**. Obligations include expenses that have been made, as well as encumbrances for goods and services that have been



ordered but not yet received. Variances between collected revenue and obligations are common and staff continuously monitored both to ensure the two stayed in sync as the first half of the year progressed. Due to continued trend of lower revenue growth several measures were taken to control expenses, including a mid-year budget cut of 1.25% for General Fund Departments; a \$2.25 million reduction in capital spending; a \$2.8 million reduction in General Fund contingency; 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 December 31, 2016 - 50% of the year complete)						
Account Class	Annual Budget	YTD Expense	% of Budget Expended	Encumbrance	Obligations	% of Budget Obligated
Personal Services	297,749,080	148,599,198	49.9%	13,514	148,612,712	49.9%
Other Services	80,256,580	36,931,808	46.0%	7,514,339	44,446,147	55.4%
Supplies	8,717,472	3,041,223	34.9%	1,031,373	4,072,596	46.7%
Capital Outlay	40,160	10,679	26.6%	29,481	40,160	100.0%
Debt Service	10,000	2,043	20.4%	0	2,043	20.4%
Transfers	18,672,212	12,930,767	69.3%	0	12,930,767	69.3%
<b>Total</b>	<b>405,445,504</b>	<b>201,515,717</b>	<b>49.7%</b>	<b>8,588,707</b>	<b>210,104,424</b>	<b>51.8%*</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 49.9% obligated** which was on target with 49.9% of payrolls paid. A hiring freeze implemented November 9, 2015 continued to be in effect.

*Other Services* The **Other Services budget was obligated at 55.4%** which was above the 50% of year completed due to \$7.5 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 46.7%** which was also below the 50% of year completed.

*Capital Outlay & Debt Service* The **Capital Outlay budget was 100% obligated** at the end of the second quarter but only 26.6% expensed. 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 69.3% 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 the transfers budget was reduced \$2.25 million to keep expenditures more in line with revenue.

### **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.

<b>Special Revenue and Enterprise Funds Revenue*</b>				
<i>(Through December 31, 2016)</i>				
<b>Category/Fund</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>	<b>% from Target</b>
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	20,688,937	19,764,632	(924,305)	(4.5%)
Fire Sales Tax Fund	20,663,158	19,696,679	(966,479)	(4.7%)
Zoo Sales Tax Fund	6,865,248	6,541,150	(324,098)	(4.7%)
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	8,192,242	7,961,098	(231,144)	(2.8%)
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	9,743,234	9,182,423	(560,811)	(5.8%)
Parking/Transit Fund	1,791,028	2,007,467	216,439	12.1%
Solid Waste Fund	5,458,491	5,208,450	(250,041)	(4.6%)
Water/Wastewater Fund	47,381,524	45,265,509	(2,116,015)	(4.5%)
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>				
Emergency Management Fund	4,488,297	4,689,922	201,625	4.5%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	901,162	934,861	33,699	3.7%
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	3,410,904	3,418,026	7,122	0.2%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Tax Fund	10,998,043	10,908,085	(89,958)	(0.8%)

<i>Police, Fire and Zoo Sales Taxes</i>	Sales tax was <b>4.1% below budget</b> at the end of the first quarter 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.
<i>Stormwater Drainage Utility Fund</i>	The Stormwater Drainage Utility Fund was <b>\$0.2 million below budget</b> and 10.1% below prior year due to the timing of transfers for capital maintenance projects.
<i>Enterprise Funds</i>	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. The Parking/Transit Fund was above budget to ensure revenue was in place prior to encumbrances. The remaining three enterprise funds (Airports, Solid Waste and Water/Wastewater) were below budget on transfers from their respective trust.
<i>Emergency Management Fund</i>	The Emergency Management Fund supports the E-911 system for Oklahoma City. Revenue was <b>\$0.2 million above budget</b> through the end of the second quarter and 19.4% above prior year due to the timing of transfers from the General Fund that support operations. Telephone tariffs were \$0.2 million below budget.
<i>Court Administration and Training Fund</i>	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 second quarter, the fund was <b>3.7% above budget</b> .
<i>Medical Services Program Fund</i>	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 <b>on budget</b> with revenue of \$3.4 million and flat compared to prior year. September was the annual open enrollment period and historically program participation has remained flat.
<i>Hotel Tax Fund</i>	This fund was <b>\$0.1 million below budget</b> and 0.9% below prior year due to the timing of debt payments. <b>Hotel Tax collections were \$0.1 million below budget</b> and 5.48% 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 50% for FY17.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through December 31, 2016 - 50% 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	19,400,257	679,652	20,079,909	47.6%
Fire Sales Tax Fund	44,908,396	18,008,904	2,321,220	20,330,124	45.3%
Zoo Sales Tax Fund	14,188,917	6,538,757	0	6,538,757	46.1%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	17,227,366	6,684,941	860,889	7,545,830	43.8%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	17,602,492	8,251,848	217,839	8,469,687	48.1%
Parking and Transit Fund	4,099,079	1,531,101	7,154	1,538,255	37.5%
Solid Waste Fund	11,830,749	4,881,769	56,444	4,938,213	41.7%
Water/Wastewater Fund	89,553,472	38,406,831	1,745,529	40,152,360	44.8%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	9,377,816	4,218,872	384	4,219,256	45.0%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,345,465	834,806	72,681	907,487	38.7%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,853,081	2,706,795	0	2,706,795	39.5%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	22,412,486	10,564,432	0	10,564,432	47.1%

### 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 the second quarter of FY17 was for \$651.0 million in collections. The City had collected \$680.3 million resulting in the fund being \$29.2 million or **4.5% ahead of budget**. The City Council has designated \$9.8 million additional revenue for sidewalk and whitewater facility improvements; leaving the fund approximately \$19.4 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, 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 November 2016, the preliminary AWE was \$783.50 which was **4.9% above prior year**. **November was the 8<sup>th</sup> consecutive month of growth over prior year** after a 14-month cycle where AWE declined from the same time period in the prior year.

In November 2016, the labor force in the Oklahoma City Metropolitan Statistical Area (OKC-MSA) was down 1.9% and was the fifth consecutive month the labor force was down when compared to the same month in the prior year. The number employed was

down 1.9% in November and **November unemployment was 4.1%**. 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 January 20<sup>th</sup> the January average **rig count was 87**, up **1.16%** from prior year and down 59% from the high of 214 in October 2014.

### **Summary**

At the end of the second quarter General Fund revenue was **\$3.9 million below the YTD amended budget** and 3.3% below prior year. Sales Tax was on budget after the mid-year budget amendment but Use Tax was \$2.7 million below budget and when combined with declines in five other categories, revenue fell to \$3.9 million below budget.

**Obligations exceeded revenue by \$14.0 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. **Expenses exceeded revenue by \$5.4 million YTD.** Due to the decline in revenue, several measures were taken to control expenses in the current fiscal year including a 1.25% budget reduction for General Fund Departments that went into effect in December that will generate savings of \$4.4 million; a \$2.25 million reduction in capital spending; a \$2.8 million reduction in contingency; and a continued hiring freeze.



James D. Couch  
City Manager