



# City Manager Report

The City of  
**OKLAHOMA CITY**

**NO:** 1007

**DATE:** APRIL 25, 2017

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

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

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

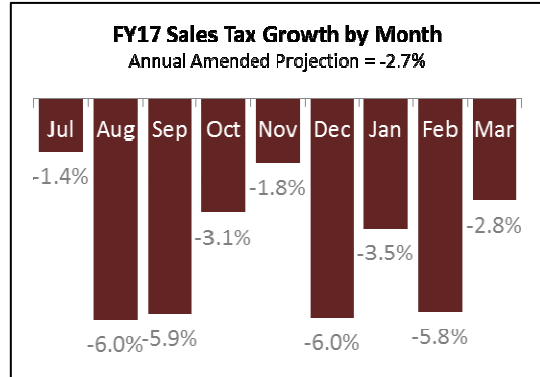
**General Fund Revenue Fiscal Year 2016-2017 (FY17)**

The General Fund was **\$7.1 million below the amended budget** through March 31, 2017 and 3.0% below FY16 collections. Eight of the 10 General Fund categories were below budget at the end of the third quarter of FY17. Amazon began collecting sales tax on e-commerce purchases beginning March 1<sup>st</sup> but those remittances will not show up in the City’s collections until May.

<b>GENERAL FUND REVENUE BY CATEGORY*</b>				
(Through March 31, 2017 - 25% of the year complete)				
<b>Category</b>	<b>Budget</b>	<b>Actual</b>	<b>Difference</b>	<b>Percentage</b>
Sales Tax	157,235,862	156,098,987	(1,136,875)	-0.7%
Use Tax	28,425,204	25,747,688	(2,677,516)	-9.4%
Franchise Fee	32,250,915	31,450,418	(800,497)	-2.5%
Charges for Services	25,733,929	25,982,949	249,020	1.0%
Fines & Forfeitures	17,339,822	16,661,144	(678,678)	-3.9%
Administrative Charges	18,098,622	18,019,153	(79,469)	-0.4%
Licenses, Permits, and Fees	10,800,021	9,641,782	(1,158,239)	-10.7%
Other Taxes	9,052,583	8,341,787	(710,796)	-7.9%
Other Revenue	2,875,342	2,692,740	(182,602)	-6.4%
Operating Transfers In	175,000	230,300	55,300	31.6%
<b>TOTAL GENERAL FUND*</b>	<b>301,987,300</b>	<b>294,866,948</b>	<b>(7,120,352)</b>	<b>-2.4%</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. At the end of the third quarter, Sales Tax had been down every month and was **\$1.1 million below amended projection** and **4.1% below prior year**.



Declines were widespread across sales tax categories:

- **Retail**, the largest sales tax category, declined 3.6% through the third quarter with all nine months down. Building Materials and Food and Beverage accounted for 50% of the retail decline.
- **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 0.7% YTD.
- **Services** declined 6.9% through the third quarter with the last eight months negative.
- **Wholesale** declined 8.9% YTD, but did post growth of 10.9% in March.
- **Utilities** declined 0.1% YTD but also posted growth in March of 3.9%.
- **Manufacturing** declined 13.4% YTD.
- **Miscellaneous**, the smallest sales tax category, had growth of 2.7% 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 \$25.7 million which was **\$2.7 million below budget but 22.4% above last year** due to a large refund made in FY16. When FY16 was normalized, the category was 7.0% below last year.

*Fines and Forfeitures* The Fines and Forfeitures category had YTD collections of \$16.7 million which was **\$0.7 million below budget** and 6.9% 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 \$18.0 million and was **\$0.1 million below budget** and 24.1% above prior year. Growth over prior year is due to the reclassification of some accounts from the Transfers category to the Administrative Charges category.

*Charges for Services* Service Charges had YTD collections of \$26.4 million. The category was **\$0.7 million above budget** and 4.8% above prior year. Growth was attributed to the timing of payments from GO Bonds and the Oklahoma City Economic Development Trust.

*Franchise Fees* The Franchise Fees category had collections of \$31.5 million which was **\$0.8 million below budget** and 0.7% below prior year. Electric and Gas franchise fees were largely impacted by weather and fuel rates; City Utilities and AT&T were below budget due to timing of payments; and Franchise fees from Cox Cable were \$0.3 million below budget and 4.0% below prior year and 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	16,641,656	16,153,692	(487,964)	-2.9%
Oklahoma Natural Gas	3,172,290	3,790,797	618,507	19.5%
Oklahoma Electric Cooperative	969,319	984,395	15,076	1.6%
Cox Cable and Cox Fibernet	5,347,500	5,054,773	(292,727)	-5.5%
City Utilities	3,904,606	3,609,434	(295,172)	-7.6%
ATT	1,669,602	1,235,725	(433,877)	-26.0%
Other Franchise Remitters	545,942	621,602	75,660	13.9%
<b>TOTAL FRANCHISE FEE</b>	<b>32,250,915</b>	<b>31,450,418</b>	<b>(800,497)</b>	<b>-2.5%</b>

*Licenses, Permits & Fees* The Licenses, Permits, and Fees category had YTD collections of \$9.6 million which was **\$1.2 million below budget** and 8.9% below prior year. The decline was largely attributed to building related permit revenue that was \$0.9 million below budget; Police Alarm Fees that were \$0.1 million below budget; and, Sidewalk and Paving 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 \$8.3 million which was **\$0.7 million below budget** and 4.3% below prior year. The decline was attributed to excise tax on tobacco products which was down 5.6% and vehicle tax which was down 5.8%.

*Other Revenue and Operating Transfers In* These categories had combined YTD collections of \$2.9 million, which was **\$0.1 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 third quarter, the General Fund **budget was 73.0% obligated** and **obligations exceeded revenue collections by \$1.2 million**. Obligations include expenses that have been made, as well as encumbrances for goods and services that have been ordered but not yet received. Variances between collected revenue and obligations are common and staff continuously monitors both to ensure the two stayed in sync as 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. Actual **expenses were \$5.2 million less than collected revenue.**

<b>General Fund Obligations By Category</b>						
(Through March 31, 2017 - 75% of the year complete)						
<b>Account Class</b>	<b>Annual Budget</b>	<b>YTD Expense</b>	<b>% of Budget Expended</b>	<b>Encumbrance</b>	<b>Obligations</b>	<b>% of Budget Obligated</b>
Personal Services	297,940,900	216,590,596	72.7%	13,514	216,604,110	72.7%
Other Services	80,193,480	53,330,760	66.5%	5,387,743	58,718,503	73.2%
Supplies	8,310,038	4,331,744	52.1%	1,045,079	5,376,823	64.7%
Capital Outlay	48,159	40,160	83.4%	7,999	48,159	100.0%
Debt Service	10,000	4,385	43.9%	0	4,385	43.9%
Transfers	18,942,927	15,350,850	81.0%	0	15,350,850	81.0%
<b>Total</b>	<b>405,445,504</b>	<b>289,648,495</b>	<b>71.4%</b>	<b>6,454,335</b>	<b>296,102,830</b>	<b>73.0%*</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 72.7% obligated** which was on target with 72.8% of payrolls paid. A hiring freeze implemented November 9, 2015 continued to be in effect.

*Other Services* The **Other Services budget was obligated at 73.2%** which was below the 75% of year completed.

*Supplies* The **Supplies budget was obligated at 64.7%** which was also below the 75% of year completed.

*Capital Outlay & Debt Service* The small **Capital Outlay budget was 100% obligated** at the end of the third quarter. The **Debt Service Fund was obligated at 43.9%**. 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 81.0% 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.

Special Revenue and Enterprise Funds Revenue*				
(Through March 31, 2017)				
Category/Fund	Budget	Actual	Difference	% from Target
<b>Sales Tax Supported Funds</b>				
Police Sales Tax Fund	31,146,901	29,499,023	(1,647,878)	(5.3%)
Fire Sales Tax Fund	31,064,875	29,405,801	(1,659,074)	(5.3%)
Zoo Sales Tax Fund	10,321,486	9,759,529	(561,957)	(5.4%)
<b>Enterprise Fund Supported by Utility Fees</b>				
Stormwater Drainage Utility	12,762,596	12,619,585	(143,011)	(1.1%)
<b>Enterprise Funds Supported by Transfers from a Trust</b>				
Airports Fund	14,255,137	13,496,833	(758,304)	(5.3%)
Parking/Transit Fund	2,342,257	2,984,245	641,988	27.4%
Solid Waste Fund	7,862,365	7,712,985	(149,380)	(1.9%)
Water/Wastewater Fund	60,908,333	65,299,138	4,390,805	7.2%
<b>Special Revenue Fund Supported by Tariff Revenue and Transfers from the General Fund</b>				
Emergency Management Fund	6,543,348	6,806,447	263,099	4.0%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>				
Court Administration Fund	1,401,954	1,491,142	89,188	6.4%
<b>Special Revenue Fund Supported by Fees on the Residential Utility Bill</b>				
Medical Service Program	5,139,992	5,210,088	70,096	1.4%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>				
Hotel Tax Fund	15,380,370	14,937,425	(442,945)	(2.9%)

*Police, Fire and Zoo Sales Taxes* Sales tax was **5.5% below budget** and 4.1% below prior year at the end of the third 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.

*Stormwater Drainage Utility Fund* The Stormwater Drainage Utility Fund was **\$0.1 million below budget**.

*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. The Parking/Transit Fund and Water/Wastewater Fund were above budget to ensure revenue was in place prior to encumbrances. The remaining two enterprise funds (Airports and Solid Waste) 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 **\$0.3 million above budget** and 10.8% above prior year due to the timing of transfers from the General Fund that support 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. At the end of the third quarter, the fund was **6.4% above budget**.

*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. The fund was **\$0.1 million above budget** with YTD revenue of \$5.2 million. September was the annual open enrollment period and historically program participation has remained flat.

*Hotel Tax Fund* This fund was **\$0.4 million below budget** due to the timing of debt payments. **Hotel Tax collections were \$0.2 million below budget** and 5.7% 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 below. Each fund was at or below the expected level of 75% for FY17.

Summary of Budget vs. Obligations in Other Operating Funds					
(Through March 31, 2017 - 75% 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	28,959,796	509,100	29,468,896	69.9%
Fire Sales Tax Fund	44,908,396	26,989,262	2,341,850	29,331,112	65.3%
Zoo Sales Tax Fund	14,188,917	9,756,187	0	9,756,187	68.8%
<b>Enterprise Fund Supported by Utility Fees</b>					
Stormwater Drainage Utility	17,234,879	10,216,182	679,590	10,895,772	63.2%
<b>Enterprise Funds Supported by Transfers from a Trust</b>					
Airports Fund	17,602,492	12,404,163	37,030	12,441,193	70.7%
Parking and Transit Fund	4,099,079	2,261,283	269	2,261,552	55.2%
Solid Waste Fund	11,830,749	7,176,151	116,533	7,292,684	61.6%
Water/Wastewater Fund	89,553,472	57,483,558	1,811,174	59,294,732	66.2%
<b>Special Revenue Fund Supported by Transfers from the General Fund</b>					
Emergency Management Fund	9,377,816	6,219,083	384	6,219,467	66.3%
<b>Special Revenue Fund Supported by Fees on Court Transactions</b>					
Court Administration Fund	2,345,465	1,308,965	81,298	1,390,263	59.3%
<b>Special Revenue Fund Supported by Fees on Residential Utility Bill</b>					
Medical Services Program	6,853,081	4,491,980	0	4,491,980	65.5%
<b>Special Revenue Fund Supported by Hotel/Motel Taxes</b>					
Hotel Motel Tax Fund	22,412,486	14,729,358	0	14,729,358	65.7%

### 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 third quarter of FY17 was for \$649.2 million in collections. The City had collected \$706.0 million resulting in the fund being \$26.9 million or **4.0% ahead of budget**. The City Council has designated \$9.8 million additional revenue for sidewalk and whitewater

facility improvements; leaving the fund approximately \$17.1 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 February 2017, the preliminary AWE was \$828.77 which was **13.2% above prior year. February was the 11<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.

The labor force in the Oklahoma City Metropolitan Statistical Area (OKC-MSA) in February 2017 was down 0.9% and was the 8<sup>th</sup> consecutive month the labor force was down when compared to the same month in the prior year. The number employed was down 8,256 or 1.3% in February and February **unemployment was 4.3%**. 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 April 13<sup>th</sup>, the **rig count was 125, up 98%** from prior year but down 42% from the high of 214 in October 2014.

### **Summary**

At the end of the third quarter General Fund revenue was **\$7.1 million below the YTD amended budget** and 3.0% below prior year. Declines were wide spread across the General Fund Categories. Amazon began collecting sales tax on e-commerce purchases beginning March 1<sup>st</sup> but those remittances will not show up in the City's collections until May.

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. Those measures have begun to close the gap between revenue and obligations. At the end of March, **Obligations exceeded revenue by \$1.2 million** due to departments encumbering funds for a full year of services or supplies; the remaining balances will be paid out in this last quarter as the service or supply is provided; actual **expenses were \$5.2 million below YTD revenue collections.**

Two of the three economic indicators continued to show improvement. The latest rig count was 125, up 98% from one year ago and Average Weekly Earnings was \$828.77, up 13.2% from one year ago. The number employed was down 1.3%.

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

James D. Couch  
City Manager