

2012 City of Stillwater, Oklahoma Historical Financial Data Analysis

Briefing Document

This briefing document provides a comprehensive overview of the financial health and key operational aspects of the City of Stillwater and its associated entities as presented in their 2012 financial reports.

Briefing Document: Financial Overview of Stillwater, Oklahoma and Related Entities (FY 2012)

Date: October 26, 2012 (as per financial statements' fiscal year end) Prepared For: Interested Stakeholders Subject: Analysis of financial health, key operations, and relevant trends for the City of Stillwater, the Stillwater Housing Authority, and the Stillwater Medical Center Authority based on their 2012 financial reports.

I. Executive Summary

This briefing synthesizes information from the 2012 Comprehensive Annual Financial Report (CAFR) of the City of Stillwater, the 2012 audit report for the Housing Authority of the City of Stillwater (PHA), and the 2012 financial statements for the Stillwater Medical Center Authority.

The City of Stillwater demonstrates a sound financial position with positive net assets and a diverse revenue base heavily reliant on sales tax. It is actively engaged in economic development initiatives, particularly revitalizing its downtown area. Debt levels are manageable and well within constitutional limits.

The Stillwater Housing Authority, a non-profit government organization, provides critical housing services primarily funded by HUD grants. While it experienced a decrease in total net assets in FY 2012, it is actively managing its programs and capital improvements.

The Stillwater Medical Center Authority, a component unit of the City, exhibits strong financial performance with increasing net patient service revenue and a substantial growth in net position. Its investment portfolio is diverse and adheres to investment-grade credit ratings.

Overall, the three entities, despite their distinct operational focuses, appear to be financially stable and well-managed as of their respective 2012 fiscal year-ends, though the Housing Authority faces potential challenges from future HUD budget cuts.

II. City of Stillwater: Key Financial Themes and Operational Highlights

The City of Stillwater, organized as a municipal corporation in 1891 and governed under a council-manager system since 1960, serves a population of over 40,000 within a 28 square mile area in north-central Oklahoma. It functions as a regional hub for shopping, entertainment, healthcare, and education, and is home to Oklahoma State University.

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A. Financial Position & Performance (as of June 30, 2012):

Positive Net Assets: The City reported "positive balances in net assets for the governmental activities and business-type activities as well as for the city as a whole." Total net assets increased from \$225,506,000 in 2011 to \$236,106,000 in 2012.

Governmental vs. Business-Type Activities: Governmental activities saw an increase in net assets by \$2,325,285, contributing to a 1.02% increase in the City's overall net assets. Business-type activities, which include the Stillwater Utilities Authority (SUA), Airport Fund, and Stillwater Industrial and Redevelopment Authority (SIRA), are designed to be self-financing through user charges, similar to private businesses.

Net Asset Composition: Invested in Capital Assets: \$180,647,568 (FY 2012), representing capital assets net of related debt.

Restricted Net Assets: \$10,242,000 (FY 2012), representing 6.88% of total net assets, subject to external restrictions (e.g., creditors, grantors).

Unrestricted Net Assets: \$45,217,000 (FY 2012), available for the City's ongoing obligations.

B. Revenue Sources:

Sales Tax Dominance: Sales and use taxes are the primary revenue source for governmental funds, consistently representing a high percentage of total taxes. In FY 2012, sales tax accounted for 87.85% of total taxes.

The City levies a three and one-half cent sales tax on taxable sales.

Distribution: 2 cents retained by General Fund for operations; 1 cent transferred to Stillwater Utilities Authority (SUA) per bond indentures; ½ cent transferred to Transportation Fund for voter-approved projects and related debt service.

Property Tax: Limited by Oklahoma State law, property tax is primarily levied to repay general obligation bonds and court-assessed judgments.

Overall Tax Revenue Growth: Total taxes increased from \$21,057,097 in 2003 to \$29,355,254 in 2012.

C. Debt Administration:

Long-Term Debt: At year-end FY 2012, the City had \$38.7 million in long-term debt. This includes General Obligation Bonds, Capital Lease Obligations, Notes Payable, Revenue Bonds, and Refundable Grant Obligations.

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General Obligation Bonds: Decreased from \$7,615,000 in 2011 to \$6,790,000 in 2012, demonstrating a trend of reduction over the last ten years.

Debt Limits & Compliance: The City complied with the Oklahoma Constitution's limit on general obligation bonded debt (no more than 10% of net assessed valuation for non-utility/non-street purposes). No voter approval was required for debt incurred in FY 2012, as no debt requiring payment beyond the current fiscal year was incurred without it.

Pledged Revenue Coverage: The Stillwater Utilities Authority (SUA) pledges future sales tax revenues and utility revenues (net of operating/maintenance expenses) to repay debt. Pledged revenue coverage for OWRB notes and 2002/2008 Revenue Bonds was 4.27 in FY 2012, indicating strong ability to cover debt service.

D. Economic Conditions and Outlook:

Key Employers: Oklahoma State University remains the largest employer, followed by Stillwater Medical Center. Other significant employers include Wal-Mart, Stillwater Public Schools, and Mercury Marine.

Business Growth Initiatives: Total Energy: Purchased the former Quad/Graphics facility in August 2012, planning to bring 200 jobs by April 2013, focusing on manufacturing storage tanks, towers, and pressure vessels.

Business Improvement District (Downtown): Since December 2007, this district has welcomed over 25 new businesses and encouraged facade improvements/relocations. Goals include increasing business activity, becoming a destination, and establishing Downtown Stillwater as a premier business, cultural, and entertainment destination in Oklahoma.

Building Permits: Commercial permits slightly decreased from 119 in 2011 to 98 (at report time in 2012), while single-family residential permits increased from 53 in 2011 to 71 in 2012. Residential property values maintained their local market value.

E. Capital Assets and Operating Indicators:

Capital Assets: Total capital assets for the City were \$211,432,000 in FY 2012.

City Employees: Total full-time equivalent city government employees were 532.9 in FY 2012, a slight decrease from 533 in FY 2011.

Utilities: The SUA, an Enterprise Fund, accounts for electric, water, sewer, and sanitation systems, financed primarily through user charges. As of June 30, 2012, \$19,279,729 in cash and

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cash equivalents were internally designated by SUA trustees for rate stabilization or future capital expenditures.

III. Stillwater Housing Authority (PHA): Financial Health

The **Housing Authority of the City of Stillwater** is a non-profit governmental organization providing housing for qualified individuals, primarily funded and regulated by HUD.

A. Financial Position & Performance (as of September 30, 2012):

Decrease in Net Assets: Total net assets decreased by \$397,910, or 6%, from \$6,837,209 in FY 2011 to \$6,439,299 in FY 2012.

Decrease in Revenues: Total revenues decreased by \$357,687 (8%) to \$4,289,653. This was primarily due to:

- A reduction in HUD operating grants (\$194,904).
- A reduction in capital grants (\$149,989).
- Elimination of rent charged to the Housing Choice Voucher program by the Low Rent program.

Increase in Expenses: Total expenses increased by \$115,199 (3%) to \$4,687,563. Significant increases included:

- HAP payments (Housing Assistance Payments) increased by \$100,125 due to an increase in units leased (from 7,418 to 7,597 in current year).
- General expenses increased by \$16,422.

Operating Loss: The Authority experienced an operating loss of (\$4,272,426) in FY 2012.

B. Programs:

The Authority operates four individual programs:

Low Rent Housing Program: 135 dwelling units, funded by tenant rents and HUD operating fund payments.

Capital Fund Program: Provides funding for modernization and improvement of the Low Rent Public Housing Program and capital improvements for current dwelling structures.

Housing Choice Voucher Program: Provides rental assistance to low-income families (663 units available), funded primarily through user charges to cover administrative costs.

Component Unit: A non-profit corporation for applying and administering miscellaneous grants.

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C. Federal Awards:

The PHA expended \$3,873,224 in federal financial assistance in FY 2012. The largest portion was for the Housing Choice Voucher Program (\$3,597,214), followed by the Capital Fund Program (\$167,548) and Low-income housing assistance program (\$108,462).

D. Subsequent Event (Post-FY 2012):

HUD Budget Cuts: Due to HUD budget cuts in FY 2012, the Authority "did not receive any operating income from HUD, and the SHA had to use reserves to stay operational." A "fiscal cliff" in 2013 could potentially "delete an additional 8% from operating income that may be down as much as 20% without the fiscal cliff problem." This indicates a significant future financial vulnerability.

IV. Stillwater Medical Center Authority: Financial Health

The Stillwater Medical Center Authority ("Hospital") is a discretely presented component unit of the City, established to provide various types of healthcare. While it operates independently, the City can remove its Trustees and approves debt issues exceeding 5% of outstanding Hospital debt.

A. Financial Position & Performance (as of December 31, 2012):

Strong Net Position Growth: Total net position increased significantly by \$15,373,168 from \$86,689,114 in 2011 to \$102,062,282 in 2012. This represents a healthy financial state.

Revenue Growth: Net Patient Service Revenue: Increased from \$93,440,137 in 2011 to \$100,554,781 in 2012, reflecting strong core operations.

Gain on Investment in Joint Ventures: Rose from \$727,583 in 2011 to \$1,312,868 in 2012.
Net Position Classification: Net Investment in Capital Assets: \$30,418,161 (FY 2012), representing capital assets net of accumulated depreciation and related borrowings.

Restricted - Expendable: \$3,376,721 (FY 2012), for specific purposes like debt service (\$2,629,384) and operating activities (\$747,337).

Restricted - Nonexpendable: \$1,507,793 (FY 2012), maintained in perpetuity (e.g., permanent endowments).

Unrestricted: \$66,759,607 (FY 2012), available for general use.

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B. Debt:

Long-Term Debt: The Authority had \$14,719,883 in long-term debt (including current portion) in 2012, a slight decrease from \$15,127,818 in 2011.

Revenue Bonds: The Authority has outstanding Series 2003 and Series 2005 Hospital Revenue Bonds, secured by gross revenues and trustee-held assets.

Series 2003: Original \$7,000,000, 5.625% interest, payable through May 2023.

Series 2005: Original \$12,715,000, 4.50%-5.25% interest, payable through May 2019.

C. Investments & Risk Management:

Diverse Portfolio: Investments include guaranteed income contracts, U.S. Treasury obligations, U.S. agencies obligations, corporate bonds, money market mutual funds, municipal bonds, and mutual funds.

Credit Risk Policy: The Authority limits domestic fixed income investments to "no less than investment grade and an overall, weighted-average rating of A by Standard & Poor's (S & P), Moody's or Fitch."

Custodial Credit Risk: The Authority's investment policy "does not address custodial credit risk."

D. Patient Accounts Receivable:

The Authority grants credit without collateral. Receivables mainly come from Medicare, Medicaid, other third-party payers, and patients. The total patient accounts receivable was \$17,120,472 in 2012, with an allowance for uncollectible accounts of \$4,530,000.

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