

# City of Tulsa Fiscal Constraints\*

*“Local governments in the United States deliver the most basic and among the most important services to the taxpaying public. They are the governments of first contact and last resort. Yet with balanced budget requirements, personnel-heavy expenditure commitments..., and revenue options limited by their respective states, city officials face the most difficult budgeting task of any level of government.”*

Bruce Wallin, “Budgeting for Basics: The Changing Landscape of City Finances”

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## CORE CITY

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With our first century now behind us, Tulsa has grown into a sprawling, maturing, core city, with all of the attendant challenges and opportunities.

At 197 square miles, the City of Tulsa is larger than San Francisco, Boston, Washington D.C., and Miami, combined. These four cities, on average, have a population density and a tax base 13 times greater than ours.<sup>1</sup>

As in many core cities, Tulsa’s population is aging and increasingly diverse. From 2000 to 2012, Tulsa’s age 50-69 cohort grew by 31%, while our age 35-49 population declined by 18%. This has implications for the workforce, as well as for the provision of city services.

If not for 107% growth in the number of Hispanic residents, the City of Tulsa would have lost population over the last decade. In the 2010 Census, 39% of Tulsa residents claimed a race other than white, either alone or in combination with another race. Sixteen percent of Tulsans now speak a language other than English at home.

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## THE CITY BUDGET AND GENERAL FUND COSTS

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Many aspects of city government (such as water, sewer, and trash service; the airport; golf courses,

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\* Tulsa City Council (2014).

<sup>1</sup> The combined municipal budgets of these four cities are nearly \$23 billion – more than 33 times greater than ours.

the BOK Center, and EMSA) are self-funding, through direct charges for service. Many of these services are administered by public trusts. As long as we are diligent in keeping rates high enough to cover costs, these functions are generally stable.

These public enterprises generate about \$252 million, or 37% of the \$688 million budget.

The City cannot charge constituents directly, however, for most aspects of city government. The costs of police response, park maintenance, planning, legal and accounting functions, etc., cannot be charged *directly* to an individual. The City must rely on general taxation and other generally applied revenues for these functions.

Looking just at general *operations* (setting aside capital programs), most of these services are accounted for in the City’s General Fund. The General Fund budget is \$261 million, or 38% of the total City budget.

*Sixty percent* of the General Fund is spent in just two departments – Police and Fire.<sup>2</sup> Across all

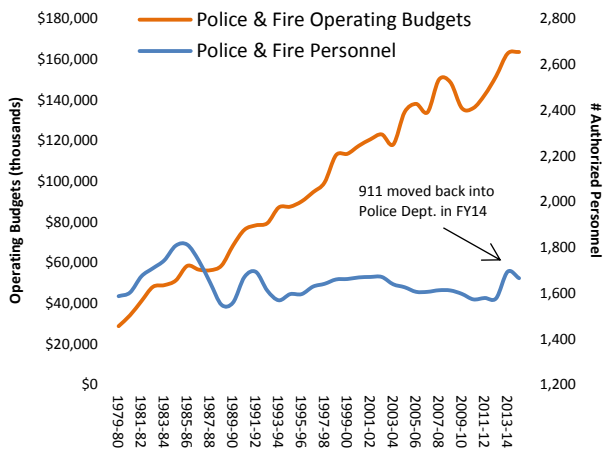
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<sup>2</sup> The remaining 40% of the General Fund must pay for Streets & Stormwater (pothole repair, mowing, traffic control, street and highway lighting, graffiti abatement, school crossing guards, snow and ice removal, etc.), Park & Recreation (including the Zoo), Information Technology, Tulsa Transit (part), Finance (treasury, accounting, budget and planning, purchasing, City Clerk, etc.), Planning & Development (including permits and inspections), One Technology Center debt service and operations, Working In Neighborhoods (code enforcement, animal shelter, etc.), Human Resources, Legal (litigation, contracts, real estate, criminal prosecution, etc.), Engineering Services, Gilcrease Museum (TU management contract), General Government (election costs, insurance, outside counsel, etc.), Municipal Court, Performing Arts Center (part), Asset Management, City Council, City Auditor, INCOG (including Planning Commission and Board of Adjustment), Mayor’s Office, Communications, River Parks (part), Human Rights, Office of Economic Development, Customer Care (utility call center and Mayor’s Action Center), and the Tulsa Area Emergency Management Agency.

departments, 76% of the General Fund is expended on personnel costs (wages, benefits, overtime, etc.). The largest expenditure in the General Fund, then, is Police and Fire personnel, which comprises 55% of total General Fund costs.

Police officers and firefighters are expensive,<sup>3</sup> and their compensation is not entirely within the City’s power to control.<sup>4</sup>

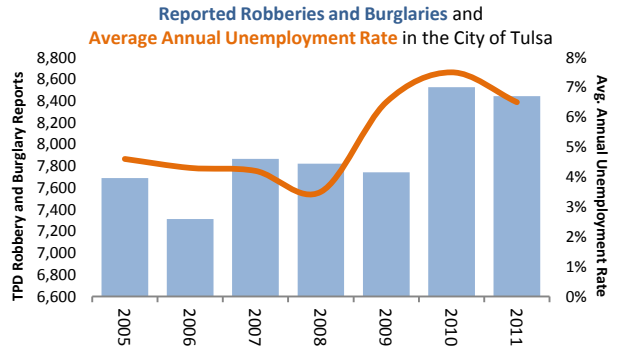
Since 1980, Police and Fire operating budgets have increased by 470%. Higher operating budgets have not translated into additional “boots on the ground,” however. The *number* of Police and Fire personnel has only increased by 4% over that 34-year span.



While it is often said that the City should be “run like a business,” the City cannot easily slow production during an economic downturn. Demands for city services do not necessarily decline during a recession; they often increase.

<sup>3</sup> See, e.g., TULSA WORLD, “Average Tulsa police officer compensation is \$72,203, analysis shows” (Apr. 27, 2014). This figure does not include related costs, such as pension contributions (13% of salary, by state law); health insurance (City pays 90% of employee cost), dental insurance (100%); clothing, and equipment.

<sup>4</sup> See Oklahoma Fire and Police Arbitration Act, 11 O.S. § 51-101 *et seq.*



## GENERAL FUND REVENUES AND STATE-IMPOSED CONSTRAINTS

Unlike the federal government, cities cannot simply accumulate annual operating deficits.<sup>5</sup>

While the state government enjoys a diverse portfolio of nearly 40 distinct taxes (on individual and corporate incomes, retail sales, oil and gas production, motor fuel, tobacco, gambling, vehicles, alcohol, etc.), cities in Oklahoma rely primarily on sales taxes for general operations.

By state law, property taxes may only be used by cities to pay general obligation bond debt for capital projects, and to pay court judgments levied against the city.<sup>6</sup> According to the Oklahoma Municipal League, Oklahoma is the only state in the nation that does not allow cities to use property taxes for general fund operations.<sup>7</sup>

As a result, sales and related use taxes comprise 65% of the City of Tulsa’s General Fund revenue (\$170 million).<sup>8</sup>

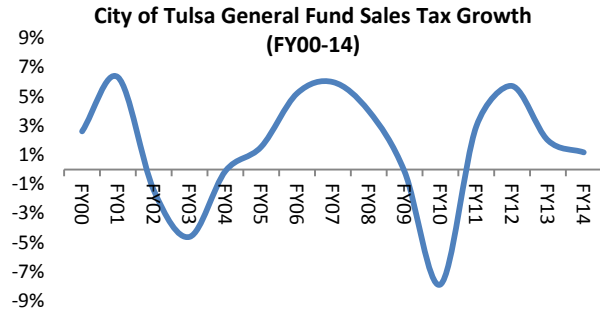
<sup>5</sup> OK Const. Art. 10 § 26; 11 O.S. § 17-206.

<sup>6</sup> OK Const. Art. 10 § 28.

<sup>7</sup> OK Municipal League, “Cities and Towns Mean Business” (2010).

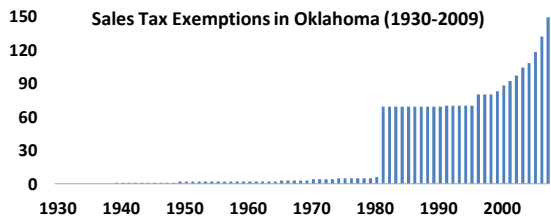
<sup>8</sup> The sales tax is also a primary source of capital/infrastructure funding. Thirty-five percent of the City’s sales tax revenue (\$71 million in FY15) funds the Improve Our Tulsa program, approved by voters in November of 2013.

The sales tax is a volatile primary revenue source.



The use tax (a tax on remote sales delivered in Tulsa) is even more volatile, and it is self-reported. As buying habits shift toward internet purchases, consistent collection of taxes due the City is becoming much more difficult. According to a 2013 study commissioned by the National League of Cities and the U.S. Conference of Mayors, Tulsa lost \$5.5 million in FY13 to internet sales.<sup>9</sup>

Adding to its inherent volatility and difficulty to collect, the State is increasingly cavalier with the sales tax, which comprises just 15% of state revenues. In 1939, there was only one state-approved sales tax exemption. In 1980, there were six. By 2009, there were 149, and more are proposed every year.<sup>10</sup> These exemptions result in billions in foregone revenue each year. For example, the State estimates that the exemption on sales to manufacturers results in \$1.8 billion in lost revenue, statewide, and the exemption on resale goods cedes nearly \$4 billion each year.

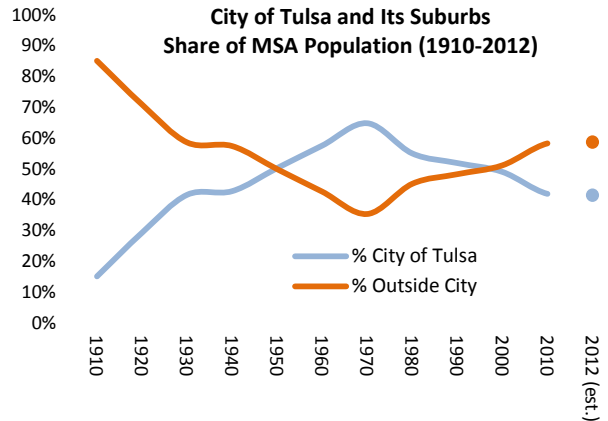


<sup>9</sup> “Impact of ‘Marketplace Fairness’ on Select Jurisdictions – UPDATE” (HIS Global Insight, 2013).

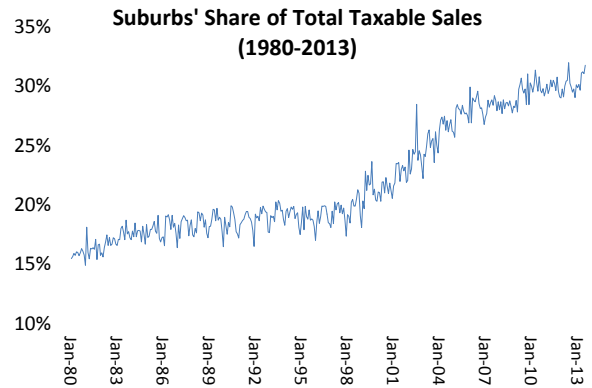
<sup>10</sup> In the most recent session, for example, legislators proposed exemptions on sales of hearing devices, storm shelters, fireworks for fundraising purposes, “commercially raised animals of the family *cervidae* (deer),” certain auto parts, and sales to the American Legion. They also proposed to extend the exemption for sales disabled veterans to include a separate exemption for any member of the veteran’s household, and to liberalize an existing exemption on sales of gold, platinum, and palladium.

In addition to state-imposed constraints and competition from internet sales, the City of Tulsa is losing retail “market share” to the suburbs.

In 1970, the city made up 65% of the metro area population. By 2012, it was only 41%.



Larger suburban populations are supporting more suburban retail sales. Over the last 34 years, the suburbs’ share<sup>11</sup> of sales grew from 15% in 1980 to 32% in 2013.



If the City of Tulsa were still generating 85% of the retail sales in in this area, rather than 68%, the City would have received approximately \$55 million more in sales tax revenue in FY13 – \$35 million of which would have been in the General Fund. This is roughly equivalent to the combined General Fund budgets of the Streets & Stormwater and Park & Recreation Departments.

<sup>11</sup> Bixby, Broken Arrow, Claremore, Jenks, Owasso, Sand Springs, and Sapulpa.

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## CONCLUSION

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The City of Tulsa purchases expensive, highly specialized services, spread across a vast geographic area.

The sources of funding available to pay for these critical services are limited by state law. The primary funding source – the sales tax – is uniquely susceptible to economic shifts, yet demands for city services often rise as revenues fall.

Beyond the inherent difficulty of relying so heavily on a single, volatile source of revenue to operate a complex municipality, the City is losing millions in sales tax revenue each year to state-imposed exemptions, internet sales, suburban retail development.