

January 28, 2026

TO: Mayor and Members of City Council

FROM: Sheryl M. M. Long, City Manager

202600200

SUBJECT: FY 2025 Carryover to FY 2026 Report

The following report provides an overview of the City of Cincinnati's General Fund FY 2025 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2026 Budget considerations for discussion.

General Fund 2025 Fiscal Year-End Balance and One-Time Uses

As shown in the table below, the City's General Fund ended FY 2025 with a carryover amount of \$42.2 million including \$8.4 million net FY 2024 carryover.

Utilizing the City's revised Stabilization Funds Policy contributions will be made to the Cincinnati Retirement System (CRS) for unfunded pension obligations, Affordable Housing Trust Fund, a newly created Special Events Support Account, and an Operating Budget Contingencies Account. There is \$1.0 million available for one-time Housing and Economic Development Projects, and \$1.0 million available for Capital Projects, including fleet, equipment, and technology.

The following table includes a breakdown of how the carryover will be applied:

Application of FY 2025 Carryover Balance

Cash Basis Carryover Balance FY 2025	\$ 42,174,903
Uses of Carryover Balance	
Application of Stabilization Funds Policy:	
Less General Fund Carryover Balance (1.5% of operating revenue)	\$ 9,158,112
Less Transfers to Reserve Accounts:	
General Fund Contingency Account (2.30% of operating revenue)	\$ 1,140,227
General Fund Contingency Account for one-time needs	\$ 16,623,768
Economic Downturn Reserve (5% of operating revenue)	\$ 2,478,755
Working Capital Reserve (8.2% of operating revenue)	\$ 2,761,207
Total Reserve Transfer from Stabilization Funds Policy	\$ 23,003,957
Carryover Balance Less Total Applied to Stabilization Funds Policy	<u>\$ 10,012,835</u>
Less Modified Waterfall Uses:	
CRS Pension Contribution	\$ 2,000,000
Affordable Housing Trust Fund	\$ 5,000,000
Special Events Support Account	\$ 500,000
Operating Contingencies Account	\$ 500,000
Balance Available	<u>\$ 2,012,835</u>
Less One-Time Uses:	
Housing and Economic Development Capital Project Reserve	\$ 1,006,417
Infrastructure and Capital Project Reserve	<u>\$ 1,006,417</u>
Balance Available	<u>\$ -</u>

Uses of Carryover Balances

The Government Finance Officers Association (GFOA) recommends that local governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the General Fund. The City's Stabilization Funds Policy, approved by the City Council in Ordinance No. 0253-2015 and subsequently amended in Ordinance Nos. 0213-2019, 0056-2022, and the current proposal, incorporates the GFOA's recommendation of no less than two months of general fund operating revenues, or 17% of annual general fund operating revenues.

Per the Stabilization Funds Policy, the following transfers will be requested via ordinance: \$1.1 million to the General Fund Contingency Account, \$2.5 million to the Economic Downturn Reserve, and \$2.8 million to the Working Capital Reserve. Based on the policy, \$9.2 million will remain in the General Fund balance.

Balances June 30, 2024 After Proposed Transfers		
Annual FY 2024 Revenue	\$560,965,684	¹
Working Capital Reserve	\$45,999,186	8.20%
General Fund Contingency Account	\$12,902,211	² 2.30%
Economic Downturn Reserve	\$28,048,284	5.00%
General Fund Carryover Balance (After Uses)	\$8,414,485	1.50%
Total Stabilization Policy Reserves	\$95,364,166	17.00%
Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$145,379,555	

¹ This amount includes \$27,247,831 in ARP revenue. Without ARP revenue included the reserve percentage is 17.87%.

² This amount does not include the \$21,690,000 transferred to the reserve for one-time needs since this amount is planned to be utilized for FY 2025.

FY 2025 Balances After Proposed Transfers		
Annual FY 2025 Revenue	\$610,540,779	¹
Working Capital Reserve	\$50,064,344	8.20%
General Fund Contingency Account	\$14,042,438	² 2.30%
Economic Downturn Reserve	\$30,527,039	5.00%
General Fund Carryover Balance (After Uses)	\$9,158,112	1.50%
Total Stabilization Policy Reserves	\$103,791,933	17.00%
Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$153,807,322	

¹ This amount includes \$25,546,330 in ARP revenue. Without ARP revenue included the reserve percentage is 17.74%.

² This is the balance as of June 30, 2025, and \$5.42m was subsequently utilized from this account and is being replenished herein.

To ensure fiscal stability, the Administration is committed to managing the City's operations in a prudent, responsible way through the adherence to management disciplines, including the Stabilization Funds Policy. The City must plan for and be prepared to mitigate fluctuations in demand for services as well as changes in revenues influenced by the economy and budgetary decisions made by the State of Ohio and the federal government. Especially in the face of the uncertainty caused by remote work trends and volatile interest rates, the City must be prepared for unforeseen events that could result in additional expenditure requirements or loss of revenues by maintaining prudent levels of fund balance and reserves as set forth in the Stabilization Funds Policy. The rating agencies have emphasized the importance of maintaining appropriate reserves to ensure financial stability and to retain the current bond ratings.

It should be noted that with these recommended transfers, the City will have reserves of 17% in compliance with the minimum 17% of annual General Fund operating revenue set aside in reserves in accordance with the Stabilization Funds Policy. The City's Stabilization Funds Policy is based on the GFOA's guideline that no less than two months of regular general fund operating revenue or regular general fund expenditures (or 17%) be maintained in reserves. The FY 2025 table above reflects the reserve level percentages based on the inclusion of ARP in the revenue total to show a consistent comparison. As detailed in the footnote, if ARP is excluded from the total revenue, the reserve level of 17.74% is achieved.

Stabilization Funds Policy Uses

Based on the Stabilization Funds Policy waterfall mechanism, the following items will be funded:

- \$16,623,768 transferred to the General Fund Contingency Account will be utilized for one-time needs as follows:
 - Cincinnati Organized and Dedicated Employees (CODE): Retroactive Pay, One-Time Lump Sum Payments, and Longevity Pay (\$750,000) – Funds will partially cover the additional costs related to the newly agreed to bargaining agreement with CODE beyond what was already included in the FY 2026 Approved Budget. This will not cover the ongoing impact of the wage adjustment.
 - American Federation of State, County, and Municipal Employees (AFSCME): Retroactive Pay, Wage Adjustment, One-Time Lump Sum Payments, increased Deferred Compensation Match, and increased Longevity Pay (\$2,655,000) – Funds will cover the additional costs related to the newly agreed to bargaining agreement with AFSCME beyond what was already included in the FY 2026 Approved Budget.
 - International Association of Fire Fighters Arbitration (IAFF): Grievance Settlement Agreement Retroactive Pay (\$6,735,474) – Funds will cover the costs related to the recent IAFF grievance settlement agreement retroactive to December 2023. This will not cover the ongoing impact of the wage adjustment.
 - Police Public Safety Measures: Replenish Reserve for Weather Related Events, Other Emergency and One-Time Needs (\$5,420,000) – Funds will replenish the Reserve for Weather Related Events, Other Emergency and One-Time Needs which were appropriated in Ordinance No. 0290-2025 in September 2025 pursuant to Council Motion No. 202501684.
 - City Manager's Office: Human Services Funding (\$1,063,294) – FY 2025 Human Services resources were not encumbered prior to FY 2025 year-end and must be appropriated to fulfill contractual obligations.
- \$5.0 million will be allocated to the Affordable Housing Trust Fund, to be deployed through the established partnership with the Cincinnati Development Fund (CDF).

- \$2.0 million will be contributed to the Cincinnati Retirement System (CRS) to address unfunded pension obligations.
- \$0.5 million will be allocated to the newly created Special Events Support Account for one-time support for special events.
- \$0.5 million will be allocated to the Operating Budget Contingencies Account to cover unforeseen operating expense needs that arise during the remainder of the fiscal year.

Carryover Uses

As part of the Stabilization Funds Policy, \$1.0 million is available for one-time Housing and Economic Development Capital uses, and \$1.0 million is available for Infrastructure and Capital Project uses. These amounts will be set aside in the Housing and Economic Development Capital Project Reserve and the Infrastructure and Capital Project Reserve until City Council provides direction on the use of the funds.

2026 Pending Matters

There are several budget concerns for FY 2026 and beyond that are noteworthy. These include the following:

- FY 2026 Approved General Fund Budget – The FY 2026 Approved General Fund Budget is structurally balanced. The Administration will monitor the budget closely and report back to Council during FY 2026 on how actual revenues align with projected revenues as well as expense trends in the FY 2026 Approved Budget.
- FY 2027-2030 Projected General Fund Budget Deficits – The General Fund multi-year forecast for FY 2027-2030 as of June 30, 2025, shows expenditures growing at a faster pace than revenues. The projected General Fund budget deficits for FY 2027-2030 were \$18.8 million, \$14.1 million, \$23.7 million and \$33.9 million respectively. Since June 30, 2025, the City has negotiated labor contracts with the AFSCME, CODE, and Building Trades bargaining units with wage increases that will increase expenditures and likely grow the projected FY 2027-2030 deficits. If future labor contracts with other bargaining units include wage increases above the amounts included in budget projections, that could also increase projected deficits. Budget projections, including updated revenue projections, will be updated in December 2025 as part of the Tentative Tax Budget (TTB) approval.
- Ratings Agencies – Moody's Investors Services' current assigned rating is Aa2 for the City's outstanding general obligation unlimited tax (GOULT) debt, and the rating is Aa3 on the City's outstanding non-tax revenue debt. The outlook is stable. S&P Global (formerly Standard & Poor's) Ratings Services' current assigned rating is AA for the City's long-term unlimited-tax general obligation (GO) bonds and an AA long-term rating on the City's non-tax revenue bonds. The outlook is stable.
- Income Tax – The FY 2026 Income Tax estimate was based on the forecasted FY 2025 collections as of April, revenue trends, and the University of Cincinnati (UC) Economics Center's forecast. The UC forecast also projects a compound growth rate of 1.69% in income tax revenue from FY 2025 – FY 2030. Income tax revenue has stabilized as employees are now permanently working remote and hybrid work schedules. However, it should be stressed that the City remains overly reliant on income tax revenue, which makes it susceptible to long-term changes in work trends.

Recommendation

The Administration requests this report be approved and filed and recommends approval of the forthcoming Ordinance.

cc: William “Billy” Weber, Assistant City Manager
Steve Webb, Finance Director
Andrew Dudas, Budget Director