

October 16, 2023

TO: Members of the Budget and Finance Committee

202302200

FROM: Sheryl M.M. Long, City Manager

SUBJECT: Revised Department of Finance Report for the Fiscal Year Ended June 30, 2023 (unaudited)

The following report provides an overview of the City of Cincinnati’s financial condition for the fiscal year (FY) ending June 30, 2023. Final revenue and expenditures are compared against the estimates for the fiscal year. Revenues and expenditure trends are reviewed, followed by an explanation of the General Fund’s year-end carryover balance.

General Fund 2023 Fiscal Year-End Balance

As shown in the summary table below, the City’s General Fund ended FY 2023 with an actual carryover amount of \$26.2 million including \$8.1 million net FY 2022 carryover. This represents an increase in the FY 2023 carryover balance of \$18.1 million. Revenue estimates included \$85.6 million in ARPA revenue; however, based on guidance from the U.S. Treasury the ARPA revenue was receipted to Fund 469 and \$85.6 million dollars of General Fund expenditures were paid directly from that fund thus decreasing expenditures in the General Fund. Therefore, General Fund revenues exceeded the estimate by \$10.7 million, \$3.7 million in prior year encumbrances were cancelled, and expenditure savings totaled \$11.5 million.

General Fund Resources, Expenditures and Carryover (in thousands)

	FY 2023 Final Budget per CFS and After <u>FY2022 Close-out Adj.</u>	FY 2023 Unaudited After FY2022 <u>Close-out Adj.</u>	<u>\$ Change</u>
Resources:			
Revenues	\$562,892	\$488,045	(\$74,847)
Transfers In	\$28,350	\$28,350	\$0
Transfers In from Reserves	1,660	1,660	\$0
<i>Total Resources</i>	592,902	518,055	(74,847)
Expenditures:			
Operating Expenditures	478,825	381,710	(\$97,115)
Operating Expenditures related to 2022 close-out	(28,167)	(28,167)	\$0
Operating Expenditures net of 2022 close-out adjustments	450,658	353,543	(97,115)
Transfers Out net of 2022 close-out adjustments	150,010	150,010	0
<i>Net Expenditures and Transfers Out</i>	600,668	503,553	(97,115)
Operating Surplus/Deficit	(7,766)	14,502	22,268
Cancelled Prior Year Encumbrances	3,624	3,662	38
Net Surplus	(4,142)	18,164	22,306
Prior Year Carryover after FY2022 close-out adjustments	8,076	8,076	0
Cash Basis Carryover Balance FY2023	3,934	26,240	22,306

What follows is a brief explanation of resources received and expenditures that occurred throughout the year to achieve the ending FY 2023 carryover balance.

Total Resources

General Fund Revenues – Actual FY 2023 revenues of \$488 million were above revenue of \$477.3 million by \$10.7 million, or 1.61%. These amounts did not include the \$85.6 million in ARPA revenue which was received to Fund 469. Overall revenues ended above the estimates due to positive collections in several areas throughout the year. Below are factors that affected revenues:

Favorable Variances:

- Income Tax revenues exceeded estimates by \$5.5 million. Refunds and withholding changes due to the shift to remote work were significantly lower than estimated; however, the refund liability will remain for three years from the date the income tax was due.
- Admission tax collections were \$2.3 million better than expected. The FY 2023 estimates were set at pre-pandemic levels. However, the number of events held in the City was greater than expected and the attendance at events exceeded estimates.
- Investment Income revenue outperformed estimates by \$4.7 million. The positive variance is a result of the increased rate environment and the utilization of an additional investment manager.

Unfavorable Variances:

- Other revenue ended the year \$89.7 million below the estimate due to a change in how \$85.6 million of ARPA revenue was receipted. Based on guidance received from the U.S. Treasury, ARPA revenue was required to be receipted to their own fund, Fund 469, rather than the General Fund thus resulting in a large negative revenue variance in the General Fund.

Total Expenditures

Actual FY 2023 operating expenditures of \$381.7 million, which are a combination of actual expenditures and encumbrances, were less than the Approved FY 2023 Budget by \$97.1 million. This total includes \$47.5 million of one-time expenditures that were approved during FY 2023 but are not recurring annual expenditures. The majority of these savings resulted from the receipt of \$85.6 million of ARPA revenue to Fund 469 vs. the General Fund as required by the U.S. Treasury.

Cancelled Encumbrances

Cancelled encumbrances are prior year planned or anticipated expenditures that did not materialize into actual expenditures in the current fiscal year. Cancelled encumbrances effectively return resources back to the fund balance of the General Fund and thereby contribute to the carryover balance. The Finance Department reviewed prior year encumbrances with departments and cancelled some prior year encumbrances to achieve additional savings for FY 2023. In FY 2023, actual cancelled prior year encumbrances were \$3.7 million.

FY 2023 Final Reserve Balances

Reserve balances at June 30, 2023 are as follows:

Actual Balances FY 2023
As of June 30, 2023

Annual Revenue	\$488,045,786	
Working Capital Reserve	\$41,463,006	8.50%
General Fund Contingency Account	\$9,287,268	1.90%
Economic Downturn Reserve	\$26,919,674	5.52%
General Fund Carryover Balance (includes \$8.1 million from FY 2022)	\$26,239,980	5.38%
Combined Reserves	\$103,909,928	21.29%

Details related to the application of the City’s stabilization funds policy and other potential one-time uses of carryover balance are contained in the FY 2023 Carryover to FY 2024 Report.

Finance Reports

In conjunction with this year-end report, submitted herewith are the following Department of Finance reports:

1. Comparative Statement of Revenue for the month ended June 30, 2023
2. City Treasurer’s Monthly Cash Reconciliation Reports for May and June 2023 and May and June monthly audit report of the accounts of the City Treasurer
3. Statement of Balances for all Funds as of June 30, 2023

By approval of this report, City Council appropriates the revenues received in the various restricted funds on the attached Statement of Balances and as stated in greater detail on the records maintained by the Department of Finance, Division of Accounts & Audits. Such revenues are to be expended in accordance with the purposes for which the funds were established.

Attachments

c: William “Billy” Weber, Assistant City Manager
Karen Alder, Director of Finance