

September 10, 2021

202102725

TO: Mayor and Members of City Council

FROM: Paula Boggs Muething, City Manager

SUBJECT: Department of Finance Report for the Fiscal Year Ended June 30, 2021 (unaudited)

The following report provides an overview of the City of Cincinnati's financial condition for the fiscal year (FY) ending June 30, 2021. 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 2021 Fiscal Year-End Balance

As described in the FY 2021 Carryover to FY 2022 Report (Item #202102726), the FY 2021 carryover process must account for an estimated \$50 million dollar income tax refund liability, arising from the state law passed in response to the pandemic that permitted businesses to continue to withhold income tax revenue based on an employee's principal place of work. Once this liability is accounted for, the City's Stabilization Funds Policy generates \$3.16 million for one-time uses. As shown in the summary table below, the City's General Fund ended FY 2021 with an actual carryover amount of \$71.2 million including \$6.4 million net FY 2020 carryover. This represents an increase in the FY 2021 carryover balance of \$64.8 million. This is primarily the result of the changes in state law relating to withholding and other related pandemic impacts that have caused revenues to exceed the estimate by \$67.9 million, the cancellation of \$2.6 million in prior year encumbrances, and expenditure savings of \$12.4 million primarily due to saving strategies implemented as a result of the COVID-19 pandemic.

General Fund Resources, Expenditures and Carryover (in thousands)

	<u>FY 2021 Final Budget per CFS and After FY2020 Close-out Adj.</u>	<u>FY 2021 Unaudited After FY2020 Close-out Adj.</u>	<u>\$ Change</u>
Resources:			
Revenues	\$414,870	\$482,836	\$67,966
Transfers In	\$1,989	\$1,989	\$0
Transfers In from Reserves	<u>3,225</u>	<u>3,225</u>	<u>\$0</u>
<i>Total Resources</i>	420,084	488,050	67,966
Expenditures:			
Operating Expenditures	415,953	403,518	(\$12,435)
Operating Expenditures related to 2020 close-out	<u>(2,729)</u>	<u>(2,729)</u>	<u>\$0</u>
Operating Expenditures net of 2020 close-out adjustments	413,224	400,789	(12,435)
Transfers Out net of 2020 close-out adjustments	<u>25,035</u>	<u>25,035</u>	<u>0</u>
<i>Net Expenditures and Transfers Out</i>	438,259	425,824	(12,435)
 Operating Surplus/Deficit	 (18,175)	 62,226	 80,401
 Cancelled Prior Year Encumbrances	 <u>0</u>	 <u>2,649</u>	 <u>2,649</u>
 Net Surplus	 (18,175)	 64,875	 83,050
 Prior Year Carryover after FY2020 close-out adjustments	 <u>6,363</u>	 <u>6,363</u>	 <u>0</u>
Cash Basis Carryover Balance FY2021	(11,812)	\$71,238	83,050

What follows is a brief explanation of resources received and expenditures that occurred throughout the year to achieve the ending FY 2021 carryover balance.

Total Resources

General Fund Revenues – Actual FY 2021 revenues of \$482.8 million were above revenue estimates of \$414.9 million by \$67.9 million, or 14%. Overall revenues ended above the estimates due to strong income tax collections in the fiscal year and continued positive collections in several other areas throughout the year. Below are factors that affected revenues:

Favorable Variances:

- Property Tax revenues were above the estimate by \$3.8 million as the result of higher assessed property values utilized by the County Auditor.
- Income Tax revenues exceeded estimates by \$68.8 million. The revenue collected includes income tax collected from nonresidents who worked remotely outside the City due to the COVID-19 pandemic in the first half of 2021, which may be subject to refund. As described, the Administration estimates that the potential refund liability will be approximately \$50 million.
- Local Government results were \$1.2 million better than expected due to increased revenue collections from the State of Ohio General Revenue tax sources.
- License and Permit fees were \$580k above the estimate primarily due to Commercial Solid Waste Franchise Fees.

- Building and Inspections' charges for services ended the year \$686k over the estimate.
- Short Term Rental Excise Tax exceeded estimates by \$310k.
- Investment Income was above the estimate by \$487k as a result of higher than projected returns.
- Fire was \$479k better than expected due to a more comprehensive billing process initiated by our Emergency Medical Services (EMS) billing vendor.

Unfavorable Variances:

- Admission Tax revenue ended the year \$1.4 million below the estimate as a result of cancelled events and limited capacity in venues for most of the fiscal year due to the COVID-19 pandemic.
- Fines, Forfeitures and Penalties ended \$2 million under the estimate due to amnesty policies put in place as a result of the pandemic and fewer parking tickets and civil citations issued as a result of the pandemic.
- Parking Meter revenue was \$2.2 million less than the estimate as a result of the COVID-19 pandemic.
- Also, transfers from the Restricted Fund to the General Fund did not occur contributing to the negative variance.

Total Expenditures

Actual FY 2021 operating expenditures of \$403.5 million, which are a combination of actual expenditures and encumbrances, were less than the Approved FY 2021 Budget by \$12.4 million. This total includes \$2.7 million of one-time expenditures that were approved during FY 2021 but are not recurring annual expenditures. The majority of the savings came in the form of position vacancy savings (salaries and benefits) which was primarily the result of a city-wide hiring freeze for the first four months of FY 2021. These strategies were enacted to generate savings to offset expected revenue shortfalls caused by the pandemic. Also, non-personnel spending was scrutinized. Only critical purchases were approved, and certain contracts were amended to generate savings. This positive savings variance represented 3.0% of the total budgeted expenditures. FY 2021 actual operating expenditures were more than FY 2020 actual expenditures by \$3.4 million. This was due primarily to the higher than budgeted cost of living adjustments for sworn personnel that occurred in FY 2021.

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 2021. In FY 2021, actual cancelled prior year encumbrances were \$2.6 million.

FY 2021 Final Reserve Balances

Reserve balances at June 30, 2021 are as follows:

	Actual Balances FY 2021 As of June 30, 2021
Annual Revenue	\$482,836,175

Working Capital Reserve	\$35,830,262	7.42%
General Fund Contingency Account	\$5,259,289	1.09%
Economic Downturn Reserve	\$6,051,948	1.25%
General Fund Carryover Balance (includes \$6.4 million from FY 2020)	<u>\$71,239,421</u>	14.75%
Combined Reserves	\$118,380,920	24.52%

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 2021 Carryover to FY 2022 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, 2021
2. City Treasurer’s Monthly Cash Reconciliation Reports for May and June 2021 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, 2021

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