

November 30, 2022

To: Mayor and Members of City Council **202202132**

From: Sheryl M.M. Long, City Manager

Subject: EMERGENCY RESOLUTION–Adopting the Annual Tentative Tax Budget for Calendar Year 2024

Submitted herewith is a resolution captioned as follows:

Adopting the Calendar Year Budget for Current Operating Expenses of the City of Cincinnati for the calendar year 2024 and submitting the same to the County Auditor.

Approval of the Resolution and Tentative Tax Budget will allow the City of Cincinnati to meet the technical requirements of state law under which the City must: a) prepare a Tentative Tax Budget; and b) adopt the Tentative Tax Budget by January 15th and submit it to the Hamilton County Auditor no later than January 20th preceding the calendar year to which it applies.

Please note that approval by the City Council of these items to meet the state’s technical requirements does not set the final FY 2024 Budget which runs from July 1, 2023, to June 30, 2024. The Recommended FY 2024-2025 Biennial Budget will be balanced and submitted for approval to the City Council prior to June 30, 2023.

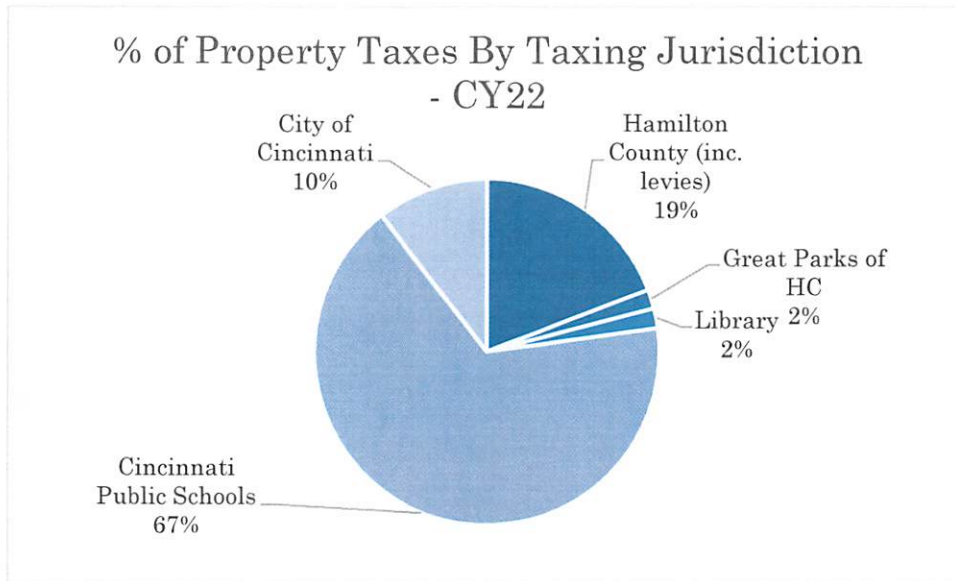
The CY 2024 Tentative Tax Budget (TTB) contains the information on all required funds, including the General Fund. As required by law, a public hearing will be held on December 12, 2022, at 1:00 PM in the Budget and Finance Committee. City Council must approve this TTB no later than January 15, 2023, per the Ohio Revised Code.

Recommended Change from 4.84 to 6.1 Operating Mills

The attached CY 2024 TTB sets the operating millage at 6.1 mills, which will generate \$36.1 million in property tax revenue in FY 2024. The recommended CY 2024 6.1 operating millage rate is a 1.26 mill increase above the CY 2023 operating

millage of 4.84 mills and will generate approximately \$4.2 million in additional operating revenue for the FY 2024 budget. Please note that the additional revenue collected in FY 2024 from the increased millage rate only represents one half of the increased revenue collected in a full calendar year. In FY 2025, the city will collect the 6.1 mills for the entire fiscal year thus resulting in approximately two times the additional revenue in that and future fiscal years.

For context, based on CY 2022 rates, the City of Cincinnati millage comprises approximately 10% of the overall property tax rate.



Based on CY 2022 tax rates, this 1.26 mill increase represents a 1.15% increase of total millage from 109.2 mills to 110.46 mills.

The following chart outlines the projected annual cost for the recommended 1.26 mill increase for a residential property—from a home valued at \$100,000 to \$300,000.

<u>Residential Home Value</u>	<u>Annual Cost</u>	<u>Per Month Cost</u>
\$100,000	\$ 39.00	\$ 3.25
\$200,000	\$ 77.00	\$ 6.42
\$300,000	\$ 116.00	\$ 9.67

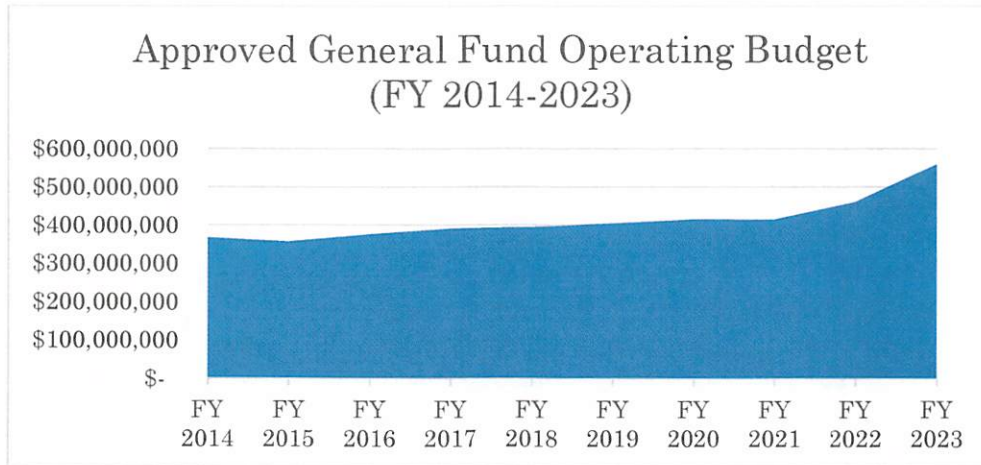
Finally, for further comparison, the existing rollback policy would re-set the millage for CY 2024 operating mills at 3.99 mills, reducing FY 2024 revenues from \$36,068,768 to the target \$28,988,000—a \$7,080,768 difference.

CY 2024 Debt Millage

The debt service millage, which provides resources to cover debt service of City debt, is estimated to remain the same at 7.5 mills for CY 2024. The proceeds of debt supported by these resources fund capital expenditures—such as infrastructure spending and fleet.

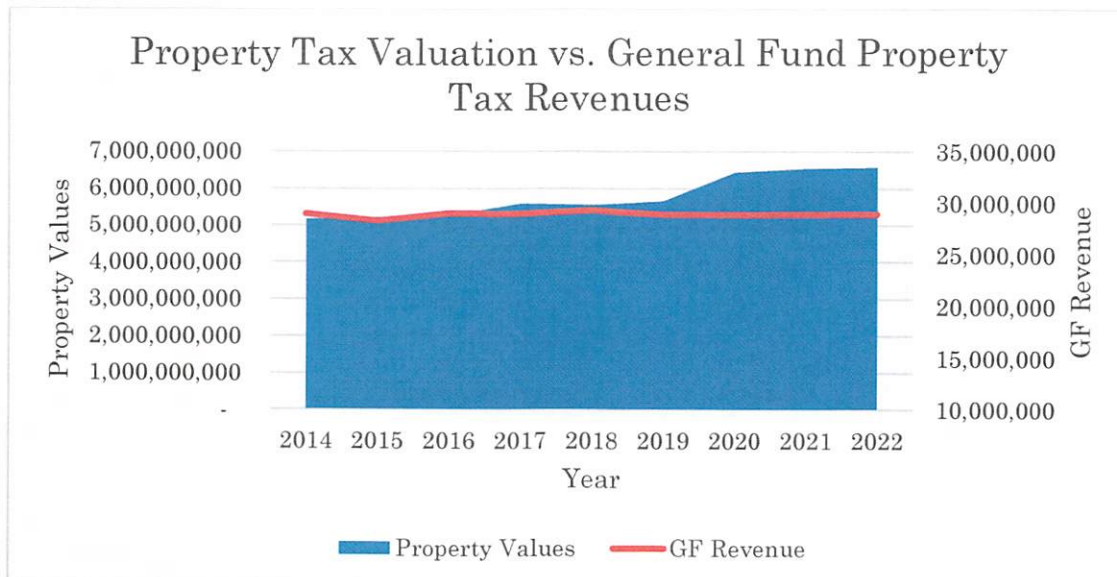
Operating Expense Growth and Tax Base Growth

Since 2014, the City's general fund operating budget has grown by approximately \$192 million, a 52% increase. This growth has primarily been driven by increases in wages and salaries of personnel—the majority being public safety staff.



While most other revenue sources for the City have grown to accommodate this expense growth, due to the rollback policy the amount of revenue that the City receives from property taxes has been flat at \$28.9 million dollars since the policy was implemented in the late 1990s, with the exception of a period during the Great Recession when millage and revenue was reduced.

Meanwhile, as demonstrated in the chart below, the City real estate tax base has continued to grow. The current practice of setting a millage rate based on a fixed amount of revenue does not allow the City to experience revenue growth as the tax base grows.



Projected Operating Budget Deficits—FY 2024 and Beyond

As shown in the CY 2024 TTB, the projected FY 2024 General Fund deficit is \$13.1 million excluding the use of prior year fund balance. The deficit is a result of the reduction of income tax revenue due to the shift of remote work and the growth in expenditures outpacing revenue growth. Projected increases to expenditures for FY 2024 include a 4% wage increase for AFSCME, Building Trades, and Teamsters employees, a 3% wage increase for CODE and an estimated 3% wage increase for sworn employees and non-represented employees. The projected deficit also includes known cost increases expected in FY 2024 for items such as increases to employee health care, the continuation of certain pilot programs and initiatives from FY 2023 such as the Alternative Response to Crisis (ARC), 311 service line expansion, and human resources centralization as well as various non-personnel contractual increases.

The Administration plans to utilize one-time American Rescue Plan (ARP) dollars to close the deficit. Without the availability of the American Rescue Plan dollars, a 2.6% across the board reduction for all departments or a 7.6% reduction if public safety departments are exempt would be required.

For FY 2025, the Administration has budgeted American Rescue Plan dollars to address a projected \$31.4 million operating budget deficit.

Beginning in FY 2026, there will be no more remaining American Rescue Plan funds available, and the Administration is projecting an estimated \$36.9 million operating budget deficit for FY 2026. This operating budget deficit is projected to continue to grow in future fiscal years.

Recommendation

In order to generate additional resources for FY2024 and to be better prepared to minimize projected operating budget deficits in FY2025 and beyond, the Administration recommends approval of the CY 2024 Tentative Tax Budget and Emergency Resolution.

c: William “Billy” Weber, Assistant City Manager
Karen Alder, Finance Director
Andrew Dudas, Budget Director

Attachments