

October 5, 2022

**TO:** Mayor and Members of City Council

**FROM:** Sheryl M.M. Long, City Manager

202201887

**SUBJECT:** Department of Finance Report for the Fiscal Year Ended June 30, 2022 (unaudited)

The following report provides an overview of the City of Cincinnati's financial condition for the fiscal year (FY) ending June 30, 2022. 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 2022 Fiscal Year-End Balance**

As shown in the summary table below, the City's General Fund ended FY 2022 with an actual carryover amount of \$85.1million including \$7.2 million net FY 2021 carryover. This represents an increase in the FY 2022 carryover balance of \$77.9 million. This is primarily the result of revenues exceeding the estimate by \$7.5. million, the cancellation of \$2.8 million in prior year encumbrances, and expenditure savings of \$85.6 million. Revenue estimates included \$67.5 million in ARPA revenue; however, based on guidance from the U.S. Treasury the ARPA revenue was receipted to Fund 469 and \$67.5 million dollars of General Fund expenditures were paid directly from that fund thus decreasing the actual revenue and expenditures in the General Fund.

**General Fund Resources, Expenditures and Carryover (in thousands)**

	<b>FY 2022 Final Budget per CFS and After <u>FY2021 Close-out Adj.</u></b>	<b>FY 2022 Unaudited After FY2021 <u>Close-out Adj.</u></b>	<b><u>\$ Change</u></b>
<b>Resources:</b>			
Revenues	\$463,410	\$470,893	\$7,483
Transfers In	\$120	\$120	\$0
Transfers In from Reserves	1,719	1,719	\$0
<i>Total Resources</i>	<u>465,249</u>	<u>472,732</u>	<u>7,483</u>
<b>Expenditures:</b>			
Operating Expenditures	458,024	372,444	(\$85,580)
Operating Expenditures related to 2021 close-out	(3,163)	(3,163)	\$0
Operating Expenditures net of 2021 close-out adjustments	<u>454,861</u>	<u>369,281</u>	<u>(85,580)</u>
Transfers Out net of 2021 close-out adjustments	28,385	28,385	0
<i>Net Expenditures and Transfers Out</i>	<u>483,246</u>	<u>397,666</u>	<u>(85,580)</u>
<b>Operating Surplus/Deficit</b>	<b>(17,997)</b>	<b>75,066</b>	<b>93,063</b>
Cancelled Prior Year Encumbrances	<u>2,728</u>	<u>2,792</u>	<u>64</u>
<b>Net Surplus</b>	<b>(15,269)</b>	<b>77,858</b>	<b>93,127</b>
Prior Year Carryover after FY2021 close-out adjustments	<u>7,243</u>	<u>7,243</u>	<u>0</u>
<b>Cash Basis Carryover Balance FY2022</b>	<b>(8,026)</b>	<b>\$85,101</b>	<b>93,127</b>

What follows is a brief explanation of resources received and expenditures that occurred throughout the year to achieve the ending FY 2022 carryover balance.

### **Total Resources**

**General Fund Revenues** – Actual FY 2022 revenues of \$470.9 million were above revenue estimates of \$463.4 million by \$7.5 million, or 1.61%. 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:

- Income Tax revenues exceeded estimates by \$59.8 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 \$3 million better than expected. The FY 2022 estimates were conservative due to the unknown level of response to the ongoing pandemic. However, events returned for most of the fiscal year and new entertainment venues were added both contributing to the favorable variance.
- Short Term Rental Excise Tax exceeded estimates by \$949k. The contract with a third-party contractor to help identify short term rentals and ensure compliance resulted in a significant increase in the number of registrations leading to the variance.
- License and Permit fees were \$1.5 million above the estimate primarily due to building permits trending toward pre-pandemic levels along with increased heating & ventilating permits.
- Casino revenue outperformed estimates by \$2.0 million, which were set at pre-pandemic levels.

Unfavorable Variances:

- Other revenue ended the year \$70.4 million below the estimate due to a change in how \$67.5 million of ARPA revenue was receipted. Based on guidance received from the U.S. Treasury, ARPA dollars could not be receipted to the General Fund. Instead, it was required that they be segregated in their own fund, Fund 469, thus resulting in a large negative revenue variance in the General Fund.

### **Total Expenditures**

Actual FY 2022 operating expenditures of \$359.2 million, which are a combination of actual expenditures and encumbrances, were less than the Approved FY 2022 Budget by \$85.6 million. This total includes \$3.2 million of one-time expenditures that were approved during FY 2022 but are not recurring annual expenditures. The majority of these savings resulted from a required accounting change based on guidance from the U.S. Treasury which required the ARPA revenue to be receipted in Fund 469 vs. the General Fund and therefore \$67.5 million dollars of General Fund expenditures were paid directly from Fund 469 vs. the General Fund. This resulted in a large reduction in revenue and expenditures in the General Fund.

### **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 2022. In FY 2022, actual cancelled prior year encumbrances were \$2.8 million.

**FY 2022 Final Reserve Balances**

Reserve balances at June 30, 2022 are as follows:

Actual Balances FY 2022 As of June 30, 2022			
Annual Revenue	\$538,393,480 *		
Working Capital Reserve	\$42,523,794	7.90%	
General Fund Contingency Account	\$7,937,388	1.47%	
Economic Downturn Reserve	\$9,310,527	1.73%	
General Fund Carryover Balance (includes \$7.2 million from FY 2021)	\$85,100,533	15.81%	
Combined Reserves	\$144,872,242	26.91%	

\*Includes \$67.5 million of ARPA funding.

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 2022 Carryover to FY 2023 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, 2022
2. City Treasurer’s Monthly Cash Reconciliation Reports for May and June 2022 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, 2022

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