

September 10, 2020

TO: Mayor and Members of City Council
FROM: Paula Boggs Muething, Interim City Manager
SUBJECT: Department of Finance Reports for the Fiscal Year Ended June 30, 2020 (unaudited)

The following report provides an overview of the City of Cincinnati’s financial condition for the fiscal year (FY) ending June 30, 2020. 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 2020 Fiscal Year-End Balance

As shown in the summary table below, the City’s General Fund ended FY 2020 with an actual carryover amount of \$20.3 million including \$6.2 million net FY 2019 carryover. This represents an increase in the FY 2020 carryover balance of \$14.1 million. This is primarily the result of revenues exceeding the estimate by \$9.2 million, the cancellation of \$1.9 million in prior year encumbrances, and expenditure savings of \$8.0 million primarily due to saving strategies implemented as a result of the COVID-19 pandemic.

General Fund Resources, Expenditures and Carryover (in thousands)

	FY 2020 Final Budget per CFS and After FY2019 Close-out Adj.	FY 2020 Unaudited After FY2019 Close-out Adj.	\$ Change
Resources:			
Revenues	\$415,033	\$424,214	\$9,181
Transfers In	\$205	\$205	\$0
Transfers In from Reserves	5,472	5,472	\$0
<i>Total Resources</i>	420,710	429,891	9,181
Expenditures:			
Operating Expenditures	408,128	400,143	(\$7,985)
Operating Expenditures related to 2019 close-out	(3,045)	(3,045)	\$0
Operating Expenditures net of 2019 close-out adjustments	405,083	397,098	(7,985)
Transfers Out net of 2019 close-out adjustments	20,604	20,604	0
<i>Net Expenditures and Transfers Out</i>	425,687	417,702	(7,985)
Operating Surplus/Deficit	(4,977)	12,189	17,166
Cancelled Prior Year Encumbrances	1,539	1,912	373
Net Surplus	(3,438)	14,101	17,539
Prior Year Carryover after FY2019 close-out adjustments	6,209	6,209	0
Cash Basis Carryover Balance FY2020	\$2,771	\$20,310	17,539

What follows is a brief explanation of resources received and expenditures that occurred throughout the year to achieve the ending FY 2020 carryover balance.

Total Resources

General Fund Revenues – Actual FY 2020 revenues of \$424.2 million were above revenue estimates of \$415.0 million by \$9.2 million, or 2.2%. Overall revenues ended just above the estimates due to strong income tax collections early 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 \$715k as the result of slightly higher assessed property values utilized by the County Auditor.
- Income Tax revenues exceeded estimates by \$8.2 million.
- Investment Income results were \$2.5 million better than expected due to a change in the portfolio structure during the year and higher than expected returns.
- License and Permit fees were \$1.3 million above the estimate primarily due to several large projects that were permitted early in the fiscal year.
- Building and Inspections' charges for services ended the year \$766k over the estimate.

Unfavorable Variances:

- Admission Tax revenue ended the year \$1.2 million below the estimate as a result of cancelled events in the last quarter of the fiscal year due to the COVID-19 pandemic.
- Fines, Forfeitures and Penalties ended \$1.6 million under the estimate due to fewer parking tickets and civil citations issued as a result of the pandemic.
- Local Government revenues were \$629k below the estimate as a result of decreased revenue collection from state General Revenue tax sources.
- Parking Meter revenue was \$1.5 million less than the estimate as a result of unanticipated closures, delays of the implementation of the valet program and 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 2020 operating expenditures of \$400.1 million, which are a combination of actual expenditures and encumbrances, were less than the Approved FY 2020 Budget by \$8.0 million. This total includes \$3.0 million of one-time expenditures that were approved during FY 2020 but are not recurring annual expenditures. This savings is primarily due to strategies enacted as a response to the COVID-19 pandemic including the implementation of a Temporary Emergency Leave (TEL) program, a hiring freeze for all non-essential positions, and pay reductions for all Division 5 non-represented employees. 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 2.0% of the total budgeted expenditures. Actual operating expenditures were less than FY 2019 actual expenditures by \$5.3 million due primarily to the savings strategies implemented as a result of the pandemic.

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 2020. In FY 2020, actual cancelled prior year encumbrances were \$1.9 million.

FY 2020 Final Reserve Balances

Reserve balances at June 30, 2020 are as follows:

Actual Balances FY 2020 As of June 30, 2020		
Annual Revenue	\$424,214,473	
Working Capital Reserve	\$32,718,658	7.71%
General Fund Contingency Account	\$2,807,504	0.66%
Economic Downturn Reserve	\$3,240,000	0.76%
General Fund Carryover Balance (includes \$6.2 million from FY 2019)	<u>\$20,310,440</u>	<u>4.79%</u>
Combined Reserves	\$59,076,602	13.93%

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 2020 Carryover to FY 2021 Report.

Finance Reports

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

1. Statement of Revenue and Expenditures for the month ended June 30, 2020
2. Graph as of June 30, 2020 presenting the General Fund's Revenue, Expenditures and Encumbrances
3. Three-year comparisons of the June 30, 2020 Statement of Balances for General Fund
4. City Treasurer's Monthly Cash Reconciliation Reports for May and June 2020 and May and June monthly audit report of the accounts of the City Treasurer
5. Statement of Balances for all Funds as of June 30, 2020

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: Christopher A. Bigham, Assistant City Manager
Karen Alder, Director of Finance