

October 5, 2022

TO: Mayor and Members of City Council 202201885
FROM: Sheryl M. M. Long, City Manager
SUBJECT: FY 2022 Carryover to FY 2023 Report

The following report provides an overview of the City of Cincinnati’s General Fund FY 2022 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2023 Budget considerations for discussion.

General Fund 2022 Fiscal Year-End Balance and One-Time Uses

As shown in the table below, the City’s General Fund ended FY 2022 with a carryover amount of \$85.1 million including \$7.2 million net FY 2021 carryover.

Utilizing the City’s Stabilization Funds Policy as recently amended to include contributions to the Cincinnati Retirement System (CRS) for unfunded pension obligations, Affordable Housing Trust Fund, and an Operating Budget Contingencies Account, \$47.5 million is available for one-time uses. Recommended one-time uses have been identified by the Administration in accordance with City Council Motion #202201471, which identified four priority areas, and the Administration’s corresponding Report (Item #202201628), which recommended a process for supporting these identified priorities.

In line with the previous report, in this carryover report the Administration is recommending investments in Deferred Infrastructure and Capital Maintenance, Neighborhood Business District Capital Support, and the proposed redevelopment of the Duke Energy Convention Center. Additionally, this report recommends investments in Over-The-Rhine for extension of Zeigler Park and improvements to address the recent gun violence in the area, continued support for the Lincoln & Gilbert minority business accelerator program, and an investment in Community Economic Advancement Initiatives (CEAI) to support its work in the Bond Hill and Roselawn neighborhoods.

The following table includes a breakdown of how the recommended carryover will apply to reserves, the Administration’s recommended one-time uses, and deduction of already passed FY 2022 reappropriations. The remaining \$7,294,178 is the balance recommended for allocation by Council amongst the remaining stated Council priorities: a possible further supplement to the Affordable Housing Trust Fund, investment in capital projects for human service organizations, or investment in capital projects supporting neighborhood development.

Application of FY 2022 Carryover Balance

Cash Basis Carryover Balance FY 2022	\$ 85,100,533
Uses of Carryover Balance	
Application of Stabilization Funds Policy:	
Less General Fund Carryover Balance (1.5% of operating revenue)	\$ 8,075,902
Less Transfers to Reserve Accounts:	
General Fund Contingency Account (2.00% of operating revenue)	\$ 2,830,482
Economic Downturn Reserve (5.00% of operating revenue)	\$17,609,147
Working Capital Reserve (8.2% of operating revenue)	\$ 1,624,471
Total Reserve Transfer from Stabilization Funds Policy	\$ 22,064,100
Carryover Balance Less Total Applied to Stabilization Funds Policy	\$ 54,960,531
Less Modified Waterfall Uses:	
CRS Pension Contribution	\$ 2,000,000
Affordable Housing Trust Fund	\$ 5,000,000
Operating Budget Contingencies Account	\$ 500,000
Total	\$ 7,500,000
Balance Available	\$ 47,460,531
Less One-Time Uses:	
Administration's Recommended One-Time Uses	
Deferred Capital Maintenance - 55%	\$ 26,103,292
Neighborhood Business District Capital Support	\$ 1,500,000
Convention Center District Improvements	\$ 7,000,000
Over-the-Rhine (OTR) Outdoor Improvements (Inc. Ziegler Park Expansion)	\$ 3,500,000
CEAI - Bond Hill Business District Investment	\$ 250,000
Lincoln and Gilbert	\$ 1,000,000
Total	\$ 39,353,292
Balance Available	\$ 8,107,239
FY 2022 Reappropriations - One-Time Uses	
FY 2022 Reappropriations - Ordinance No. 0196-2022	\$ 793,111
Councilmember Landsman Reappropriation from FY 2022 - Ordinance No. 0224-2022	\$ 5,000
Vice-Mayor Kearney Reappropriation from FY 2022 - Ordinance No. 0257-2022	\$ 10,000
Councilmember Cramerding Reappropriation from FY 2022 - Ordinance No. 0278-2022	\$ 4,950
Total	\$ 813,061
Balance Available	\$ 7,294,178

Uses of Carryover Balances

Application of Stabilization Funds Policy

The Government Finance Officers Association (GFOA) recommends that local governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the General Fund. The City's Stabilization Funds Policy, approved by the City Council in Ordinance No. 0253-2015 and subsequently amended in Ordinance Nos. 0213-2019 and 0056-2022, incorporates the GFOA's recommended two months of general fund operating revenues, or 16.7% of annual general fund operating revenues.

Per the Stabilization Funds Policy, the following transfers will be requested via ordinance: \$1.6 million to the Working Capital Reserve Fund, \$2.8 million to the General Fund Contingency

Account, and \$17.6 million to the Economic Downturn Reserve Account. Based on the policy, \$8.1 million will remain in the General Fund balance.

FY 2021 Balances
After Close-out Adjustments

Actual FY 2021 Revenue	\$482,836,175	
Working Capital Reserve	\$38,993,000	8.08%
General Fund Contingency Account	\$9,656,724	2.00%
Economic Downturn Reserve	\$9,310,527	1.93%
General Fund Carryover Balance (After Uses)	<u>\$7,242,543</u>	<u>1.50%</u>
Total Stabilization Policy Reserves	\$65,202,793	13.50%
30% Income Tax Reserve for Refunds	<u>\$50,015,389</u>	
Total Combined Reserves	<u>\$115,218,182</u>	

Balances June 30, 2022
After Proposed Transfers

Annual Revenue	\$538,393,480	*
Working Capital Reserve	\$44,148,265	8.20%
General Fund Contingency Account	\$10,767,870	2.00%
Economic Downturn Reserve	\$26,919,674	5.00%
General Fund Carryover Balance (After Uses)	<u>\$8,075,902</u>	<u>1.50%</u>
Total Combined Reserves	\$89,911,711	16.70%
Existing Balance of Income Tax Reserve for Refunds	<u>\$50,015,389</u>	
Total Combined Reserves	<u>\$139,927,100</u>	

*Includes \$67.5 million of ARPA funding.

Overall combined reserves will increase by \$24.7 million, from 13.50% in FY 2022 to 16.70% in FY 2023, excluding funds set aside for income tax refunds. To ensure fiscal stability, the Administration is committed to managing the City’s operations in a prudent, responsible way through the adherence to management disciplines, including the Stabilization Funds Policy. The City must plan for and be prepared to mitigate fluctuations in demand for services as well as changes in revenues influenced by the economy and budgetary decisions made by the State of Ohio and the federal government. Especially in the face of the uncertainty caused by remote work trends and a weakened national economy, the City must be prepared for unforeseen events that could result in additional expenditure requirements or loss of revenues by maintaining prudent levels of fund balance and reserves as set forth in the Stabilization Funds Policy. The rating agencies have emphasized the importance of maintaining appropriate reserves to ensure financial stability and to retain the current bond ratings.

It should be noted that with these recommended transfers, the City will have achieved the GFOA's recommendation of 16.7% of annual General Fund operating revenue set aside in reserves. Years of careful planning and management and the support and leadership of the current Mayor and Council and previous elected officials made this possible, and the City will strive to maintain this level of reserves.

Amended Stabilization Funds Policy Uses

Based on the amended Stabilization Funds Policy waterfall mechanism, the following items will be funded:

- \$5.0 million will be allocated to the Affordable Housing Trust Fund, to be deployed through the established partnership with the Cincinnati Development Fund (CDF). Additional information on that partnership and the structure of deployment are attached as Attachment A.
- \$2.0 million will be contributed to the Cincinnati Retirement System (CRS) to address unfunded pension obligations.
- \$500,000 will be allocated to a newly created Operating Budget Contingencies Account.

The Administration recommends allocating 50% (or \$250,000) from this account to the following one-time needs in the City's FY 2023 General Fund Operating Budget:

- Emergency Communications Center (ECC) Extension of Alternate Response to Crisis (ARC) mental health pilot program (\$140,000) – Funds will cover the extension of ECC's ARC pilot program with Police Dispatch through the end of FY 2023.
- Cincinnati Police Department (CPD) Downtown Deployment Overtime (\$60,000) – Funds will partially offset the expense caused by necessary additional deployment of CPD officers in the Central Business District (CBD) and Over-The-Rhine during the summer of 2022 to support special events and increase police presence to reduce violence.
- Marijuana Offense Expungement Efforts (\$25,000) – Funds will be utilized to cover court costs and filing fees of eligible individuals seeking expungement of marijuana offenses.
- Cincinnati Recreation Commission (CRC) Lifeguard Recruitment and Bonus Pay (\$25,000) – Funds will provide additional resources for a new wage and bonus pay structure for attracting and retaining CRC lifeguards for the Summer of 2023.

The Administration recommends that the remaining \$250,000 be held in reserve in the Operating Budget Contingencies Account, to cover unforeseen operating expense needs that arise during the remainder of the fiscal year.

Carryover Uses

As part of the Stabilization Funds Policy, \$47,460,531 is available for one-time uses for FY 2023. Below are the Administration's recommendations on how to use these funds, based on Mayoral and the City Council priorities.

Administration's Recommended One-Time Uses

- Deferred Capital Maintenance (\$26,103,292) – In response to City Council Motion #202201639, materials related to various departments' deferred capital maintenance needs are provided in Attachment B. The recommended \$26,103,292 allocation will provide

funding to address the backlog of deferred maintenance of the City's capital assets and represents 55% of the \$47,460,531 available for one-time uses. The recommended projects include the following amounts by department:

- Enterprise Technology Solutions – \$1,703,292
 - An additional allocation of funds to replace radios used by multiple City departments, including primarily by police and fire
- City Manager's Office – \$2,000,000
 - \$1,500,000 as a dedicated funding source for Community Budget Requests (CBRs)
 - \$500,000 for communications equipment upgrades, including CitiCable
- Department of Recreation – \$5,000,000
 - \$2,500,000 for renovation of various recreation facilities
 - \$2,000,000 for pavement and Heating, Ventilation, and Air Conditioning (HVAC) improvements in various recreation facilities
 - \$500,000 for Evanston Recreation Area improvements
- Department of Parks – \$3,500,000
 - \$1,500,000 for stream stabilization efforts in California Woods
 - \$1,000,000 for renovations in the lower portion of Inwood Park
 - \$1,000,000 for erosion stabilization efforts in Smale Riverfront Park
- Department of Transportation and Engineering – \$3,900,000
 - \$2,000,000 for traffic signal infrastructure
 - \$1,400,000 for street light infrastructure, including LED conversion
 - \$500,000 for Winter Weather Spot Infrastructure maintenance (pothole repair)
- Department of Public Services – City Facilities Management (CFM) – \$5,000,000
 - \$3,500,000 for additional Fleet Facilities Renovations
 - \$1,000,000 for improvements at Public Safety facilities
 - \$500,000 for Americans with Disabilities Act (ADA) improvements at various City facilities
- Department of Public Services – Fleet Services – \$1,500,000
 - An additional allocation of funds for fleet replacements
- Department of Health – \$3,500,000
 - An additional allocation of funds for Health facilities improvements including various deferred maintenance projects and renovations at various clinics including the Bobbie Sterne Health Center, the Price Hill Health Center, the Northside Health Center, and the Burnet & King facility
- Neighborhood Business District Capital Support (\$1,500,000) – Funds will be used to provide funding for neighborhood projects that were submitted through the City's Neighborhood Business District Improvement Program (NBDIP) or the Neighborhood Business District Support Grant Program but did not receive funding from those programs due to limited resources.

- Convention Center District Improvements (\$7,000,000) – These funds will be used to pay for pre-development and design costs associated with renovation of the Duke Energy Convention Center.
- Over-the-Rhine (OTR) Outdoor Improvements (\$3,500,000) – These funds will be used to provide resources for outdoor improvements to the Ziegler Park and proximate area in OTR to help address recent violence in that area.
- Lincoln & Gilbert (\$1,000,000) – These funds will be used to continue support for the Lincoln & Gilbert minority business accelerator program.
- CEAI Capital Investment (\$250,000) – These funds will be used to support the work of Community Economic Advancement Initiatives (CEAI) in the Bond Hill and Roselawn neighborhoods.

FY 2022 Reappropriations

The following ordinances have already been previously passed by Council, to account for reappropriation of FY 2022 expenses that were not able to be encumbered before the end of the fiscal year:

- FY 2022 Reappropriations per Ordinance No. 0196-2022 (\$793,111) – Funding provided resources for leveraged support commitments, the Black Lives Matter mural refresh, 311 service line technology purchases and advertisements, and the Cities for Financial Empowerment Grant and associated matching resources.
- Councilmember Landsman’s Reappropriation from FY 2022 (\$5,000) – One-time resources in the amount of \$5,000 were provided for the St. Vincent de Paul Society's Eviction Prevention Initiative per Ordinance No. 0224-2022.
- Vice-Mayor Kearney’s Reappropriation from FY 2022 (\$10,000) – One-time resources in the amount of \$5,000 were provided to the Christ Temple Baptist Church summer camp program and \$5,000 in one-time resources for 1N5 per Ordinance No. 0257-2022.
- Councilmember Cramerding’s Reappropriation from FY 2022 (\$4,950) – One-time resources in the amount of \$4,950 were provided for continuing legal education for Law Department personnel per Ordinance No. 0278-2022.

City Council Funding Priorities

A balance of \$7,294,178 remains available for identified Council priorities, with allocations to be determined by Council at a later date. The following are recommendations for a process on deployment of those funds, based on the previously stated Council priorities.

- Affordable Housing Trust Fund – In addition to the contemplated \$5 million allocation discussed above, additional funds could be allocated to the partnership with the CDF for deployment for affordable housing projects through the existing structure and agreement with CDF.
- Human Service Capital Projects – Funds could be allocated to capital projects that support human service organizations. It is recommended that Council determine the amount of any

such allocation and identify a specific need that it seeks to address, then any such funding be deployed through a Request for Proposal (RFP) or other competitive process developed in partnership between the Administration and the Human Services Advisory Committee (HSAC).

- Neighborhood Capital Projects – Funds may be made available for neighborhood projects to a capital account that will support a competitive RFP process with awards for large catalytic neighborhood projects. Following the RFP process, the Administration would return to Council with recommendations for appropriations. Additional information on a proposed RFP process is included in Attachment C.

2023 Pending Matters

There are several budget concerns for FY 2023 and beyond that are noteworthy. These include the following:

- COVID-19 Budget Impact – Due to the impact to income taxes and other sources of revenues related to the COVID-19 pandemic, the Approved FY 2023 General Fund Budget was balanced but not structurally balanced due to the reliance on \$18.6 million in one-time American Rescue Plan (ARP) funds. The Administration will monitor the budget closely and report back to Council during FY 2023 on how actual revenues align with revenues projected in the Approved FY 2023 Budget Update.
- FY 2024 and FY 2025 Projected Deficits – Despite the reliance on \$18.6 million of ARP funds for FY 2023, the General Fund Long-Term Forecast included in the Approved FY 2023 Budget Update document includes a General Fund preliminary deficit of \$22.0 million for FY 2024 and a preliminary deficit of \$31.4 million for FY 2025. Both fiscal years are expected to require the use of ARP funds to balance. For labor contracts not already agreed to through FY 2024, the General Fund Long-Term Forecast assumes a 3.0% wage increase for sworn and non-sworn personnel and a 5.0% increase for healthcare. If labor contract negotiations result in higher increases, the projected deficits will increase.
- Ratings Agencies – Moody’s Investors Services’ current assigned rating is Aa2 for the City’s outstanding general obligation unlimited tax (GOULT) debt, and the rating is Aa3 on the City’s outstanding non-tax revenue debt. The outlook is stable. Standard & Poor’s Ratings Services’ current assigned rating is AA for the City’s long-term unlimited-tax general obligation (GO) bonds and an AA long-term rating on the City’s non-tax revenue bonds. The outlook is stable.
- Income Tax – The FY 2023 Income Tax estimate reflects an increase of 3.95% from FY 2022 forecasted collections, based on revenue trends and the UC Economics Center’s forecast. However, the UC forecast also projects relatively flat growth in income tax revenue from FY 2024 – FY 2027. In addition, income tax revenue continues to be uncertain as employees move permanently to remote and hybrid work schedules. While there has not been a sharp increase in refund requests, there is a refund liability created to the City for a running three-year period while the employee remains eligible for a refund. It should be stressed that the City remains over reliant on income tax revenue, which makes it susceptible to long-term changes in work trends.

Recommendation

The Administration requests this report be approved and filed and recommends approval of the accompanying Ordinance.

cc: William "Billy" Weber, Assistant City Manager
Karen Alder, Finance Director
Andrew Dudas, Budget Director

Attachments

Attachment A: CDF Affordable Housing Trust Fund Deployment Structure

Attachment B: Deferred Capital Maintenance Supplemental Information and Response to Motion #202201639

Attachment C: Proposed RFP for Neighborhood Capital Projects