



## Betsy Sundermann

*Cincinnati City Councilmember*

**August 31, 2020**

### MOTION

**WE MOVE** the City Administration prioritize the payoff of the \$50 million operating debt for emergency financing which was incurred by the City of Cincinnati for unforeseen and other necessary expenses that have arisen due to the COVID-19 pandemic.

Prioritization means earmarking any available closeout monies for the payment of the loan after the Funds Stabilization Policy distributions have been made to the General Fund Carryover Balance and Reserve for Weather and One Time Events per City Council Ordinance, then to the Economic Downturn Reserve Fund, Working Capital Reserves, and Additional Reserves.

  
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### STATEMENT

In previous years, Council has been able to use closeout monies for a variety of special and worthy one-time projects that were not necessarily funded in the budget. Since the budget has been devastated by the COVID-19 pandemic, it is most prudent for Council to establish a stabilization plan to secure a strong financial foundation for the City of Cincinnati going forward.

The City's Stabilization Funds Policy via Ordinance 0213-2019 established a Government Finance Officers Association (GFOA), which recommended a goal of 16.7% of general operating revenues to be set aside as reserves by FY2020, the actual reserve funding (i.e. Fund Balance) has hovered in the 10%-12% range during the past five years. Fund Balance is arguably the single most important financial metric to the Bond Rating Agencies and being able to show progress towards this policy goal is a critical factor for the City's credit ratings. It is reasonable to expect that a trend of decreasing fund balance will be a credit negative for the Rating Agencies and could lead to a downgrade. It is also reasonable to expect that an inability to make progress towards the City's policy could lead to negative credit pressure. Negative credit pressure - or a full downgrade - will increase the cost of funding for the City's entire capital program and decrease the City's capacity to fund capital in the future.

Although City Council adopted an amended Funds Stabilization Policy as noted above that adjusted the percentages of various components of the City's reserve accounts, the FY2020 projected fund balance was approximately 11.32%. This meets the minimum reserve of 10.0% that bond rating agencies expect but falls below the Funds Stabilization Policy of 16.7%.

The APPROVED FY2021 Budget Update is not structurally balanced as one-time sources were used to address the revenue shortfall due to the COVID-19 pandemic. Some one-time sources came from State and County CARES dollars. The other one-time source of revenue was a \$10.2 million emergency loan (the balance of \$39.8 million remaining in cash from the \$50 million line of credit) which is scheduled to be paid back using proceeds from the lease of the Cincinnati Southern Railway (CSR). Currently, the CSR revenue is utilized to finance critical capital and infrastructure restoration projects such as roads, city buildings, city parks, recreation and health facilities, sidewalks, and pedestrian safety improvements. The first projected interest payment in the amount of \$1,271,458.33 is scheduled to be paid on June 21, 2021 as part of the FY 2021 budget. If we pay off the \$50 million loan, we will have no other interest payments for these emergency funds.