

Budget and Finance Committee

Stabilization Funds Policy Update & FY 2025 Carryover

December 8, 2025

Agenda

- The Stabilization Funds Policy
 - What is it?
 - Why have it?
 - What is an adequate level of reserves?
- Summary of Current Policy
- Summary of Proposed Policy Updates
- FY 2025 Carryover to FY 2026
- History of Reserves
- Application of Policy for FY 2025 Carryover
- Mayor's Recommended One-Time Uses

Stabilization Funds Policy

What is it?

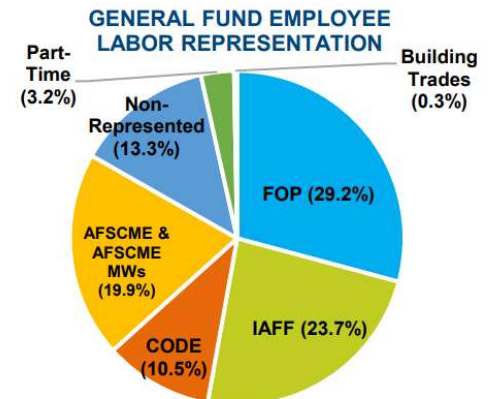
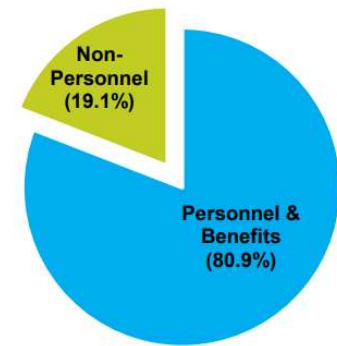
- The Stabilization Funds Policy is a formal statement of the City's target minimum general fund reserve levels and provides a method for funding and replenishing those reserves through contributing portions of any available end-of-year surplus.
- The policy also provides a structure for Council to fund priorities, for any remaining surplus after reserve contributions.
- The City first established the policy in 2015 following credit downgrades in the years before, and the policy and the level of reserves it has achieved are an important factor in maintaining the City's credit rating.

Stabilization Funds Policy

Why have it?

- The purpose of these reserves is to mitigate risk of revenue shortfalls or unanticipated expenditures.
- The reserves are intended to primarily cover General Fund expenses during challenging economic times or expenses arising due to other unexpected events or other pressing public needs—such as natural disasters.
- General fund expenses for the City are primarily employee salaries, predominately public safety.

GENERAL FUND PERSONNEL VS.
NON-PERSONNEL EXPENDITURES



Stabilization Funds Policy

Why have it?

Reserve balances are invested and the returns provide an important source for the General Fund through investment returns— at 4.3% it is the third greatest General Fund source in FY 2026.

REVENUES & TRANSFERS IN: General Fund revenue and transfers in for the Approved FY 2026 Budget total \$574.5 million, which is a 0.5% (or \$2.8 million) increase from the Approved FY 2025 Budget Update amount of \$571.7 million. Prior years have included revenue replacement from the American Rescue Plan (ARP) Act. Funding from the ARP Act has expired and is not part of the FY 2026 General Fund Operating Budget.

Earnings Tax (64.5%)
\$370.8 M

**Other Revenues /
Transfers In (18.8%)**
\$107.8 M

**Property Tax
(8.3%)**
\$47.9 M

**Investments
(4.3%)**
\$24.8 M

**B&I Fees
and Permits
(4.0%)**
\$23.1 M

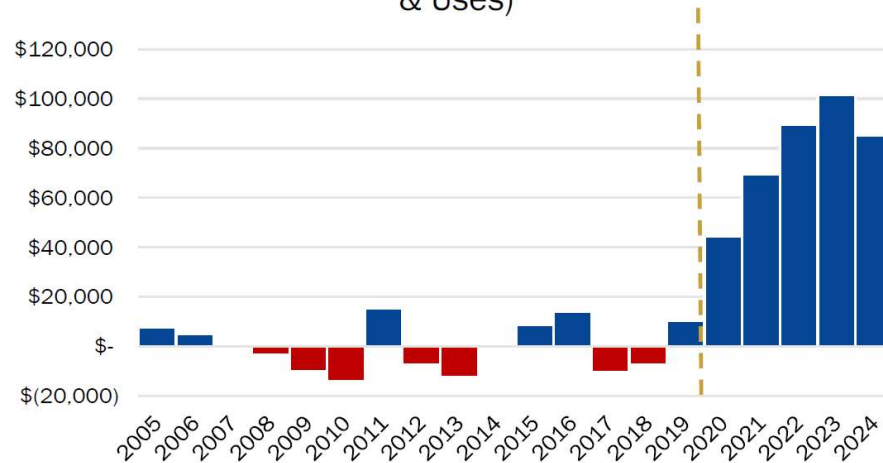


Stabilization Funds Policy

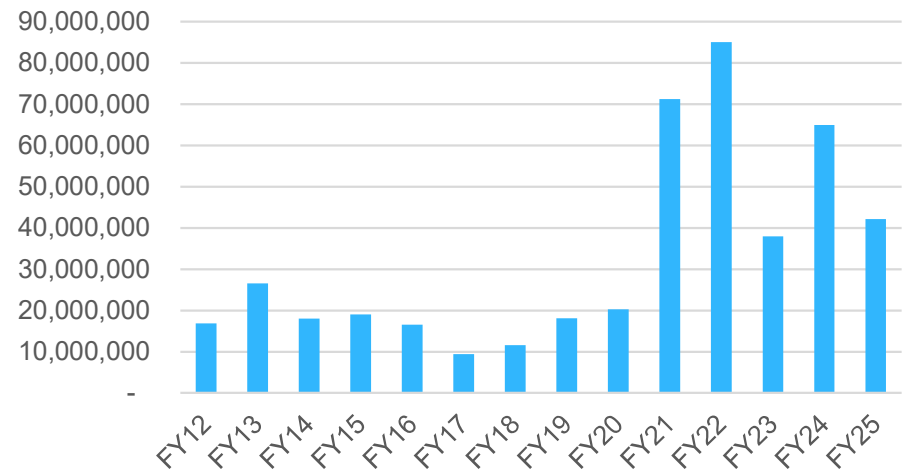
Why have it?

The City's recent surpluses have been the exception to the rule over the last 20 years. The reserves are intended to help the City be prepared for less favorable financial conditions and unforeseen events.

Annual Surplus (Prior to Transfers/Other Sources & Uses)



Cash Basis Carryover FY12-FY25



Stabilization Funds Policy

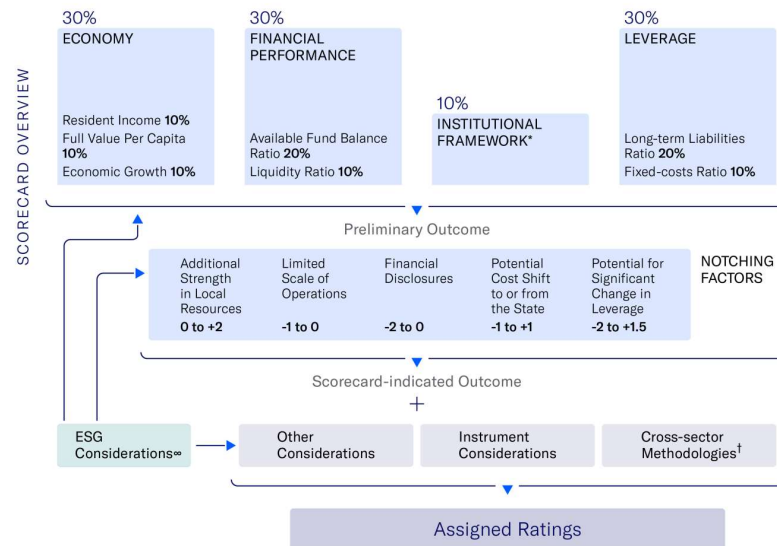
Why have it?

Strong reserve balances support the City's credit rating, reducing the cost of borrowing.

Beyond just balances, the City is currently able to prop up a lower quantitative credit rating with its strong financial management practices—which includes setting and following the policy itself.

MOODY'S
RATINGS

Exhibit 1
Illustration of the US cities and counties methodology framework



S&P Global Ratings Outlook

The stable outlook reflects our view that, given Cincinnati's proactive fiscal management and demonstrated ability to plan and adjust its budget during economic downturns, the city will maintain a very strong financial position.

Downside scenario

We could lower the rating if reserves decrease to a level that we believe is no longer commensurate with that of similarly rated peers. We could also lower the rating if the city's pension funding discipline leads to material weakening in its funding status.

Upside scenario

In the longer term, if Cincinnati improves its pension funding discipline and liability, with all other rating factors remaining constant, we could raise the rating.

Stabilization Funds Policy

What is an adequate level of reserves?

- The Government Finance Officers Association (GFOA) recommends a minimum reserve balance of no less than two months of regular General Fund operating revenues or expenditures. $2 \text{ months} / 12 \text{ months} = 16.7\%$
- GFOA guidance provides that an individual government must take into consideration its own unique circumstances in determining an appropriate level of reserve funding, including the following:
 - Dependency on volatile revenue sources
 - Exposure to one-time outlays (ex. natural disasters, state budget cuts, etc.)
 - Drain upon General Fund from other governmental funds and available resources in other funds
 - Impacts on credit rating and related costs of borrowing
 - Commitments and assignments of unrestricted fund balance

Stabilization Funds Policy

What is an adequate level of reserves?

Several factors justify that the City to maintain a healthy reserve balance, even above the minimum 16.7% floor:

- The City's General Fund expenses are highly dependent upon income tax (64.5% of General Fund resources in FY 2026), which is a notoriously volatile revenue source tied to the performance of the local and national economy.
- The City has in the past experienced significant unplanned expense due to weather and climate-related events (ex. \$17 million to stabilize Columbia Parkway, flooding, etc.).
- The Ohio State Legislature is constantly considering actions that would undercut City revenues or require significant unplanned expenses (ex. Proposals related to income taxes, property taxes, and local government funds or increased police and fire pension contributions).
- The City's high level of long-term liabilities related to its pension obligations require counterbalancing positive factors, such as a high level of reserves, to maintain its current credit rating.

Stabilization Funds Policy

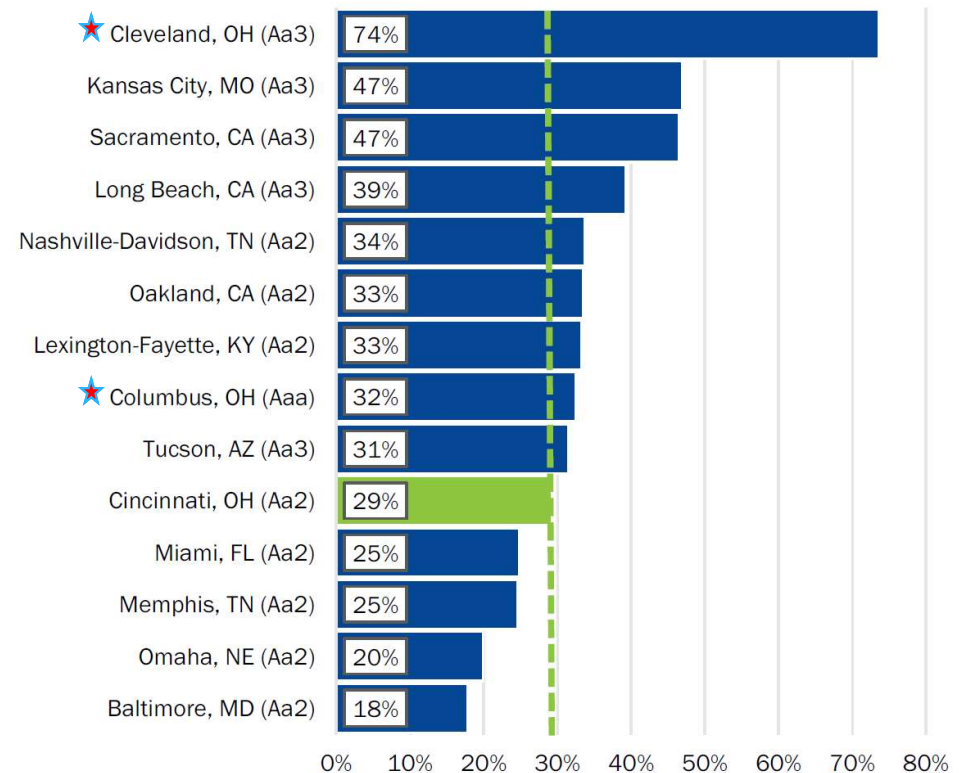
What is an adequate level of reserves?

Compared to its similarly rated peers, the City of Cincinnati has a relatively low available fund balance.

Available fund balance is a measure utilized by the credit rating agencies that looks at all governmental funds, including the General Fund.

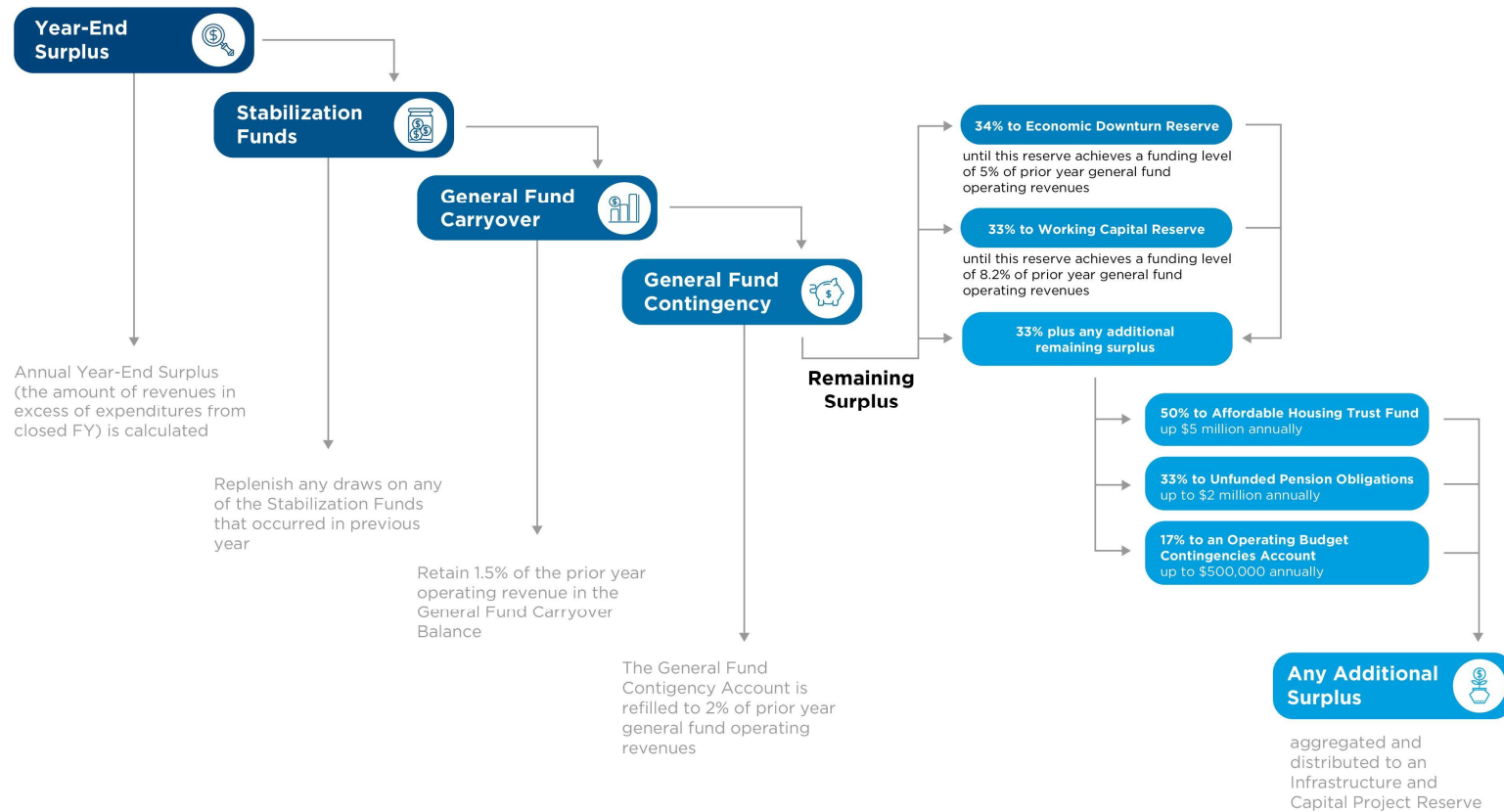
The General Fund reserve levels are an important component of this measure.

Total Available Gov. Fund Balance



Stabilization Funds Policy

Summary of Current Reserve Policy:



Stabilization Funds Policy

Summary of Current Reserve Policy:

- General Fund Carryover Balance
 - The function of this reserve is to help manage cash flow needs arising from the timing of different revenues coming in and expenses being incurred, similar to a checking account.
 - Minimum Policy Balance of 1.5% of Prior Year General Fund revenues
- General Fund Contingency Account (aka the Weather Reserve)
 - The function of this reserve is to provide resources for one-time and unexpected expenses. Resources from this reserve are the “first line of defense” for unbudgeted expenses.
 - Minimum Policy Balance of 2% of Prior Year General Fund revenues

Stabilization Funds Policy

Summary of Current Reserve Policy:

- Economic Downturn Reserve
 - The function of this reserve is to have resources set aside to fund continued City operational expenses (primarily payroll) in the event of a material unforeseen economic event that causes a serious reduction in income tax revenues.
 - Minimum Policy Balance of 5% of Prior Year General Fund revenues
- Working Capital Reserve
 - The function of this reserve is to have a pool of significant resources available for use in addressing an emergency circumstance or other catastrophic need.
 - Minimum Policy Balance of 8.2% of Prior Year General Fund revenues

Stabilization Funds Policy Updates

Summary of Key Proposed Changes:

- Formally increases the General Fund Contingency Account (aka the Weather Reserve) from 2% to 2.3% of general operating budget revenues.
- Creates a new bucket for Special Events Support at up to \$500,000.
- Provides a 50/50 split of the previously consolidated capital bucket into a Housing and Economic Development Reserve and an Infrastructure and Capital Project Reserve for City-owned capital assets (fleet, equipment, infrastructure, technology, etc.)

Stabilization Funds Policy Updates

Increase General Fund Contingency Policy Level from 2% to 2.3%:

- Proposed update formally increases the General Fund Contingency from 2% to 2.3% of General Fund operating revenues. This revision will maintain the previously recommended and achieved percentage of reserves from last fiscal year—a total of 17%.
- At 2.3%, the General Fund Contingency Account will total \$14 million, based on FY 2025 revenues, which will be \$1.8 million higher than if the minimum policy is kept at 2%.
- This change would continue to show strong financial management practices to the credit rating agencies, helps maintain a healthy reserve balance, and is justified based on the factors previously discussed.
- It sets aside additional funding as the “first line of defense” for unexpected expenses in a year where we are facing the least favorable financial circumstances in years.

FY 2025 Carryover to FY 2026

FY 2025 Carryover Amount: \$42 million

This carryover amount results from a combination of revenues exceeding estimates, expenditure savings, prior-year carryover, transfers, and prior-year cancelled encumbrances.

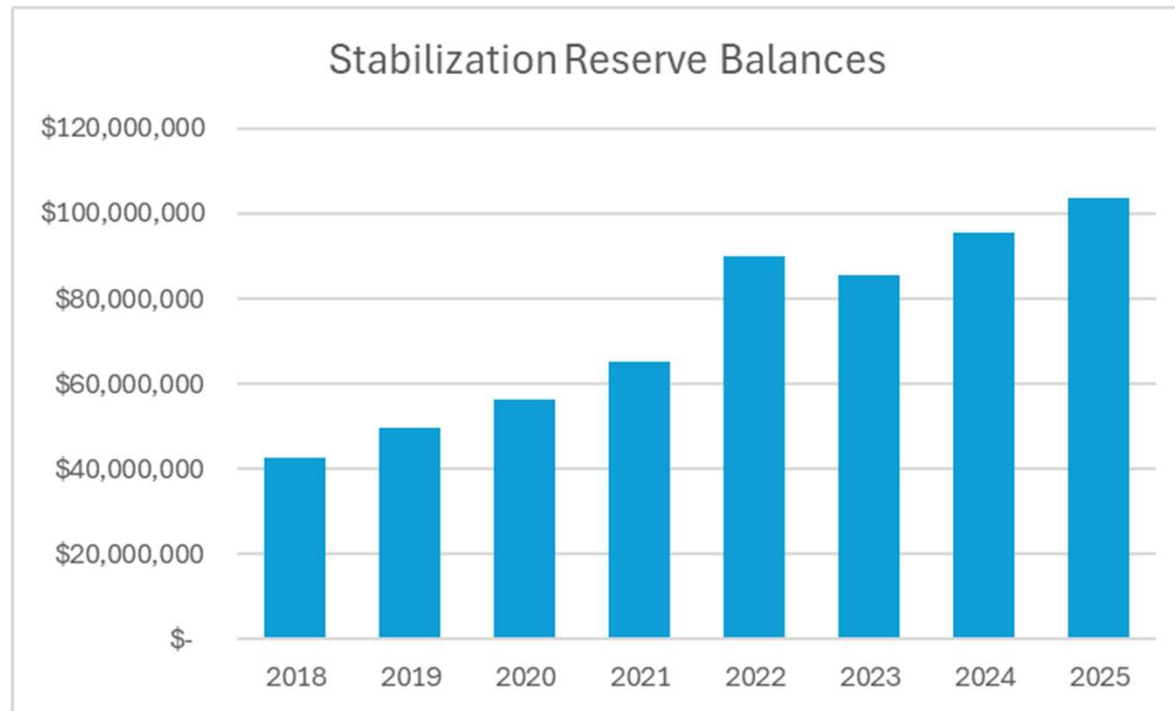
FY 2025 General Fund Carryover Balance	\$8.4 million
General Fund Revenue Over Estimates	\$17.5 million (3.1% Variance*)
General Fund Expenditures Under Estimates	\$13.9 million (2.0 % Variance*)
Prior-Year Cancelled Encumbrances	\$2.5 million

*Variance % does not include ARP Revenue.

Reserve Account Balances

FY 2025 Balances After Proposed Transfers		
Annual FY 2025 Revenue	\$610,540,779 ¹	
Working Capital Reserve	\$50,064,344	8.20%
General Fund Contingency Account	\$14,042,438 ²	2.30%
Economic Downturn Reserve	\$30,527,039	5.00%
General Fund Carryover Balance (After Uses)	\$9,158,112	1.50%
Total Stabilization Policy Reserves	\$103,791,933	17.00%
Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$153,807,322	
¹ This amount includes \$25,546,330 in ARP revenue. Without ARP revenue included the reserve percentage is 17.74%.		
² This is the balance as of June 30, 2025, and \$5.42m was subsequently utilized from this account and is being replenished herein.		

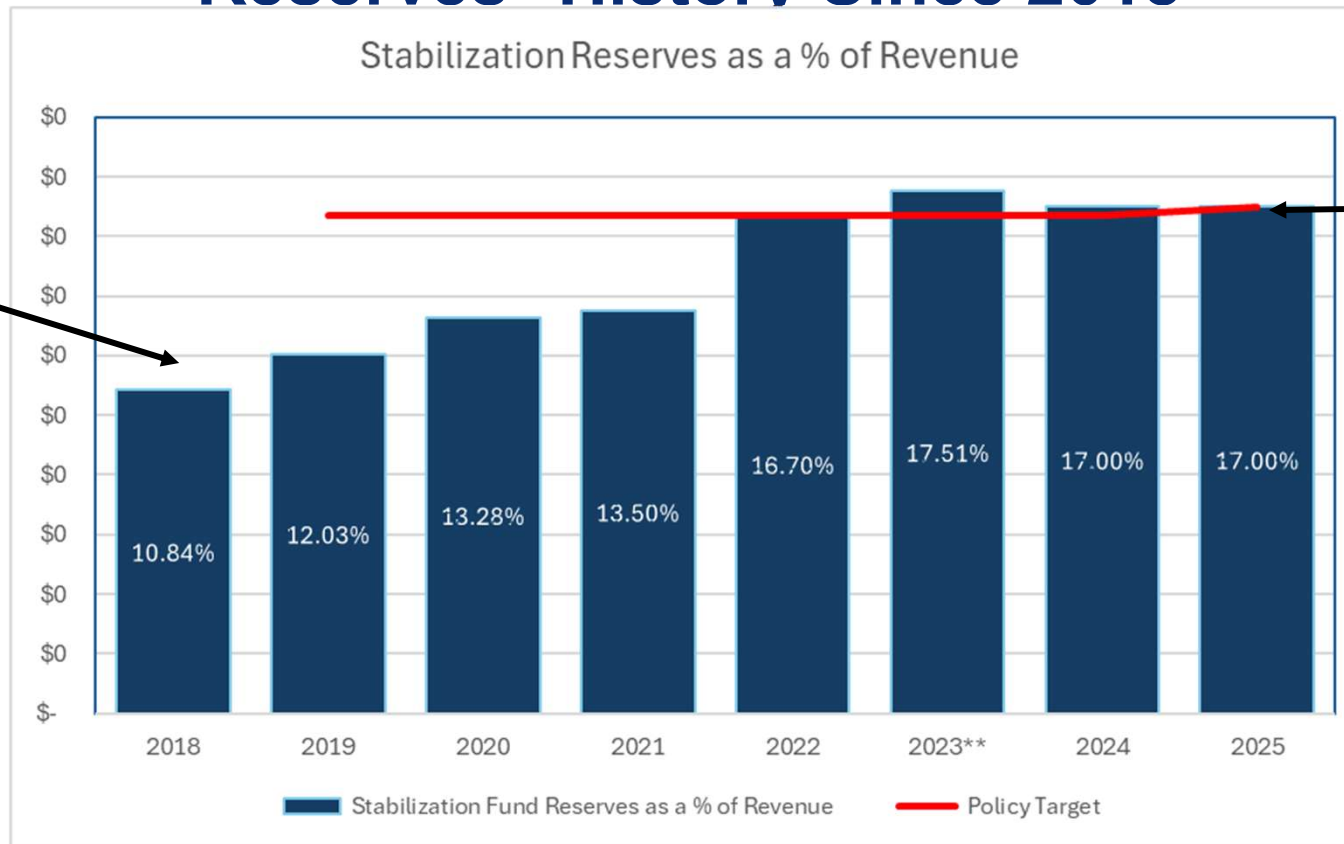
Reserves* History Since 2018



Stabilization reserve balances have increased approximately 2.4 times since 2018.

*Reserve amounts are after transfers, and the year refers to the year being closed out.

Reserves* History Since 2018



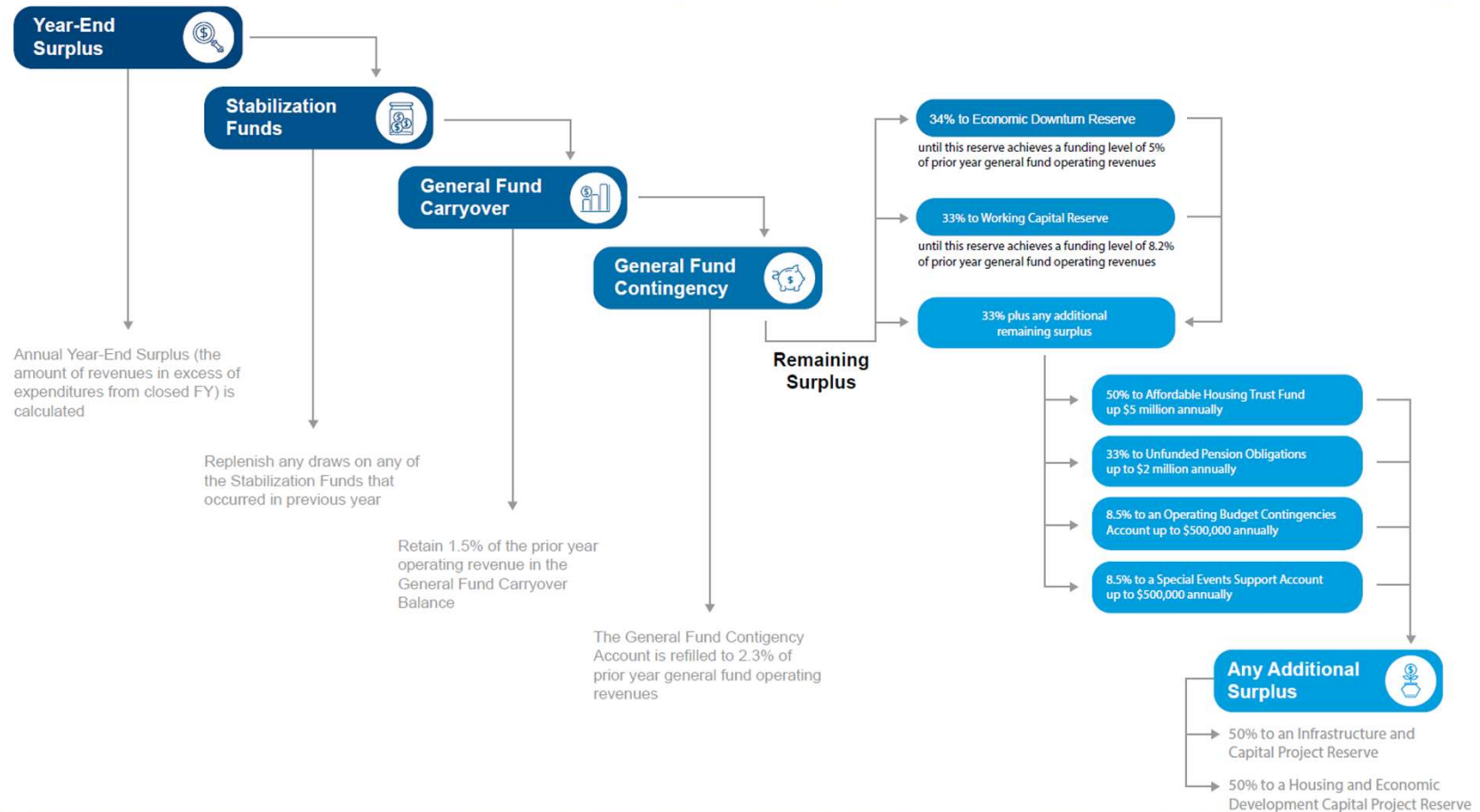
Prior Policy

Recommended
Policy Level
(17%)

*Reserve amounts are after transfers, and the year refers to the year being closed out.

**The reserve calculation for FY 2023 does not include the \$85.6M in ARP revenue utilized.

Stabilization Funds Policy: Proposed Waterfall Funding



Application of the Carryover Balance

Application of FY 2025 Carryover Balance

Cash Basis Carryover Balance FY 2025		\$ 42,174,903
Uses of Carryover Balance		
Application of Stabilization Funds Policy:		
Less General Fund Carryover Balance (1.5% of operating revenue)		\$ 9,158,112
Less Transfers to Reserve Accounts:		
General Fund Contingency Account (2.30% of operating revenue)	\$ 1,140,227	
General Fund Contingency Account for one-time needs	\$ 16,623,768	
Economic Downturn Reserve (5% of operating revenue)	\$ 2,478,755	
Working Capital Reserve (8.2% of operating revenue)	<u>\$ 2,761,207</u>	
Total Reserve Transfer from Stabilization Funds Policy		<u>\$ 23,003,957</u>
Carryover Balance Less Total Applied to Stabilization Funds Policy		\$ 10,012,835
Less Modified Waterfall Uses:		
CRS Pension Contribution		\$ 2,000,000
Affordable Housing Trust Fund		\$ 5,000,000
Special Events Support Account		\$ 500,000
Operating Contingencies Account		<u>\$ 500,000</u>
Balance Available		\$ 2,012,835
Less One-Time Uses:		
Housing and Economic Development Capital Project Reserve		\$ 1,006,417
Infrastructure and Capital Project Reserve		<u>\$ 1,006,417</u>
Balance Available		\$ -

Administration's Recommended One-Time Uses: General Fund Contingency Account: \$16.6 million

- Cincinnati Fire Department = **\$6.7 million**
 - Retroactive Pay
 - Grievance Settlement Agreement
- American Federation of State, County, and Municipal Employees (AFSCME) = **\$2.7 million**
 - Retroactive Pay, Wage Adjustment, One-Time Lump Sum Payments, increased Deferred Compensation Match, and increased Longevity Pay
 - Based on newly ratified Collective Bargaining Agreement
- Cincinnati Organized and Dedicated Employees (CODE) = **\$750,000**
 - Partial Coverage of Retroactive Pay, One-Time Lump Sum Payments, and Longevity Pay
 - Based on newly ratified Collective Bargaining Agreement

Administration's Recommended One-Time Uses: General Fund Contingency Account: \$16.6 million

- Police Public Safety Measures = **\$5.42 million**
 - Replenishment of funds authorized via Ordinance No. 0290-2025 in September 2025 pursuant to Council Motion No. 202501684.
 - Funds were to be used for police public safety measures and to deter violent crime in the Central Business District (CBD) and other crime hot spots in the City.
- City Manager's Office Human Services Funding = **\$1.1 million**
 - FY 2025 Human Services resources were not encumbered prior to FY 2025 year-end and must be appropriated to fulfill contractual obligations.

General Fund Contingency Account

- Amount = **\$500,000**
- Will be set aside in the Reserve Account until City Council provides direction on the use of the funds for one-time operating expense needs.

Special Events Support Account

- Amount = **\$500,000**
- Will be set aside in the Reserve Account until City Council provides direction on the use of the funds to support special events that enhance the vibrancy of the City and generate positive economic impact.

Infrastructure and Capital Project Reserve

- Remaining Amount = **\$1.0 million**
- Will be set aside in the Reserve Account until City Council provides direction on the use of the funds for one-time infrastructure and capital projects for City-owned assets, including but not limited to fleet and other equipment, facilities, and technology.

Housing and Economic Development Project Reserve

- Remaining Amount = **\$1.0 million**
- Will be set aside in the Reserve Account until City Council provides direction on the use of the funds for capital or permanent improvement projects supporting housing and economic development projects.

Mayor's Recommended One-Time Uses

- Infrastructure and Capital Project Reserve = **\$1.0 million**
 - Fleet Capital Improvements
 - Remaining Amount = **\$0**
- Special Events Support Account = **\$200k**
 - Black Family Reunion = \$100k
 - The Abercrombie Group = \$100k
 - Remaining Amount = **\$300k**

Questions?