

September 10, 2020

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

**FROM:** Paula Boggs Muething, Interim City Manager

**SUBJECT:** FY 2020 Carryover to FY 2021 Report

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The following report provides an overview of the City of Cincinnati's General Fund FY 2020 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2021 Budget Update considerations for discussion.

**General Fund 2020 Fiscal Year-End Balance and One-Time Uses**

The FY 2021 Approved Budget Update includes \$10.2 million in emergency short-term note proceeds as authorized by Section 133-12 of the Ohio Revised Code to balance the budget. The City Council passed an ordinance that directs the Administration to use any additional available dollars in place of the emergency short-term note proceeds as part of the FY 2021 Budget Update. The City recently received \$7.7 million in additional Coronavirus Aid, Relief, and Economic Security (CARES) Act dollars. This amount will be applied to cover budgeted expenses in place of the emergency short-term note secured in May. The remaining balance of \$2.5 million budgeted in the FY 2021 Budget Update will be repaid from the Economic Downturn Reserve if additional COVID related support dollars are not received.

As shown in the table below, the City's General Fund ended FY 2020 with a carryover amount of \$20.3 million including \$6.2 million net FY 2019 carryover. The table includes a breakdown of how the carryover was applied to reserves and one-time uses.

### Application of FY 2020 Carryover Balance

Cash Basis Carryover Balance FY 2020	\$	20,310,440
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#### Uses of Carryover Balance

##### Application of Stabilization Funds Policy:

Less General Fund Carryover Balance (1.5% of operating revenue )	\$	6,363,217
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##### Less Transfers to Reserve Accounts:

General Fund Contingency Account (2.00% of operating revenue)	\$	5,676,785
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Economic Downturn Reserve (pledged for short-term note)	\$2,500,000
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Economic Downturn Reserve (additional waterfall amount)	\$ 311,948
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Economic Downturn Reserve Total (1.43% of operating revenue)	\$	2,811,948
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Working Capital Reserve (8.36% of operating revenue)	\$	2,729,245
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Total Reserve Transfer from Stabilization Funds Policy	\$	11,217,978
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Carryover Balance Less Total Applied to Stabilization Funds Policy	\$	2,729,245
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##### Less One-Time Uses:

Police Violence Reduction Initiatives	\$	1,000,000
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Tuition Reimbursement	\$	430,000
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Merits and COLAs	\$	675,000
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Short Term Rental Contract	\$	40,000
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Housing Court Startup	\$	100,000
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COVID-19 Costs Health	\$	339,245
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COVID-19 Costs Recreation	\$	95,000
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CitiCable Video Playback System	\$	50,000
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Balance Available	\$	-
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### 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 2015 and revised in 2019, references the GFOA's recommended two months of operating revenues, or 16.7%.

Per the Revised Stabilization Funds Policy and also setting aside dollars to cover the ORC Section 133-12 loan, the following transfers will be requested via ordinance: \$2.7 million transfer to the Working Capital Reserve, \$5.7 million to the General Fund Contingency Account and \$2.8 million to the Economic Downturn Reserve Account. Based on the policy, \$6.4 million will remain in the General Fund balance. Please note below that in FY 2019 the Emergency Reserve Account was rolled into the General Fund Contingency Account and a new Economic Downturn Reserve Account was created in accordance with the revised policy.

## FY 2019 Balances after Close-out Adjustments

Annual Revenue	\$413,963,769	
Working Capital Reserve	\$32,068,572	7.75%
General Fund Contingency Account	\$8,279,275	2.00%
Economic Downturn Reserve	\$3,240,048	0.78%
General Fund Carryover Balance (After Uses)	<u>\$6,209,457</u>	<u>1.50%</u>
<b>Total Combined Reserves</b>	<b>\$49,797,352</b>	<b>12.03%</b>

### Projected Balances FY 2020 After Proposed Transfers

Annual Revenue		\$424,214,447	
Working Capital Reserve		\$35,447,902	8.36%
General Fund Contingency Account		\$8,484,289	2.00%
Economic Downturn Reserve (pledged for short-term note)	\$2,500,000		
Economic Downturn Reserve (additional balance)	<u>\$3,551,949</u>		
Total Economic Downturn Reserve		\$6,051,949	1.43%
General Fund Carryover Balance (After Uses)		<u>\$6,363,217</u>	<u>1.50%</u>
<b>Total Combined Reserves (\$2.5 million pledged for short-term note)</b>		<b>\$56,347,357</b>	<b>13.28%</b>

Overall combined reserves have increased from 12.03% in FY 2019 to 13.28% in FY 2020, an increase of 1.25%. The City of Cincinnati is committed to managing the City's operations in a prudent, responsible way through the adherence to management disciplines to ensure fiscal stability. One of those methods is 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. 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 policy adopted in 2015 and revised in 2019. The GFOA's recommendation of 16.7% reserves is the appropriate level we are striving toward.

The rating agencies have emphasized the importance of maintaining appropriate reserves to ensure financial stability and to retain the current bond ratings. The Administration has committed to the rating agencies' plan to build the reserve balances each year until reaching the goal of 16.7% as recommended by the GFOA.

### Carryover Uses

As part of the updated Stabilization Funds Policy, \$2,729,245 is available for one-time uses for FY 2021. Below are the Administration's recommendations on how to use these dollars with the highest priority to reduce the current spike in the crime in the City.

Violence Reduction Initiatives (\$1,000,000):

The Administration recommends funding for three programs to address the spike in crime:

- Police Visibility Overtime (PVO) (\$700,000) – One of the most effective solutions to address short term spikes in crime is to have officer presence in the areas where crime has spiked. PVO would be strategically deployed to address the increase in crime to maintain a proactive presence to deter crime.
- Add One FTE District Attorney Position (\$100,000) – The City Solicitor’s Office currently allocates one full-time City prosecuting attorney to be a Special Assistant to the US Attorney’s Office (SAUSA) focused on local law enforcement efforts to address gun violence. Funding an additional prosecuting attorney with the City Solicitor’s Office would allow the City to double its efforts with two additional prosecuting attorneys working with the SAUSA and the U.S. Attorney’s Office to combat and prosecute gun violence. Involvement by the City’s attorneys in the federal effort strengthens and maintains the critical, working relationships between local and federal agencies.
- Safety Coordinators/Organizers Program (\$200,000) – Reporting to the Division Manager of Criminal Justice Initiatives within the Office of the City Manager, Safety Coordinators/Organizers would be contractors that will lead collaborative efforts to improve safety and quality of life in priority neighborhoods, acting as a liaison between residents, community-based organizations, business owners, developers and police/prosecutors. The overarching goal is to integrate the resources of people and institutions which influence crime and perceptions within neighborhoods to uncover more strategic and effective remedies for safety problems and community engagement to ensure long-term and sustainable results.

Below is an explanation of additional high priority uses of the remaining FY 2020 Fund Balance:

- Tuition Reimbursement (\$430,000) – The Fraternal Order of Police (FOP) was successful in an arbitration related to the elimination of tuition reimbursement for FY 2020. As a result, an additional need of \$330,000 is necessary to pay the FY 2020 tuition reimbursement costs and the projected need for FY 2021. This request also includes the remaining \$100,000 to be appropriated to a General Fund non-departmental account for all General Fund staff to be able to participate in the tuition reimbursement program.
- Reinstating Non-Represented Employees’ Merit Pay and COLAs (\$675,000) – The Approved FY 2021 Budget Update included a freeze of merit pay and cost-of-living-adjustments (COLAs) for all non-represented staff. This was the last item eliminated in the budget to balance and creates pay inequities within the City. Reinstating merit pay for Fiscal Year 2021 and a 2.0% COLA effective October 4, 2020 will create equity among the union and non-represented ranks.
- Short-Term Rental Contractual Services (\$40,000) – The City implemented a Short-Term Rental Excise Tax and there is a need for an outside service to verify that all short-term rental owners are complying with the new laws. This service would provide the City with a list of all owners and confirm compliance.
- Housing Court Startup (\$100,000) – The City continues to stand up the Housing Court function and funds were allocated in FY 2020 that were unspent. These additional funds would be used to continue the process with the goal of standing up the City function by the end of FY 2021.
- COVID-19 Expenditures, Health (\$339,000) – Funds would be allocated to the Cincinnati Health Department to address any additional COVID-19 expenditures that are not funded with grant dollars and would include additional costs for contact tracing and testing.

- COVID-19 Expenditures, Recreation (\$95,000) – The Cincinnati Recreation Commission (CRC) is offering access to the internet for students as part of full day camp services during the pandemic. The current internet service is not capable of handling the additional load so these funds would be used for investment in WIFI access at all recreation centers to allow students to attend school virtually.
- CitiCable Video Playback System, City Manager's Office (\$50,000) – CitiCable is currently unable to program or broadcast its Public and Educational (P&E) Channels (Public, Education and Religion channels) due to equipment failure. The City of Cincinnati will need to procure a new Video Playback System.

## **2021 Pending Matters**

There are several budget concerns for FY 2021 and beyond that are noteworthy. These include the following:

- COVID-19 Budget Impact – Due to the downturn in income tax and other sources of revenues related to the COVID-19 pandemic, the Approved FY 2021 Budget Update was balanced but not structurally balanced due to the reliance on \$43.9 million in one-time funds, including a loan related to ORC Section 133.12 in the amount of \$10.2 million, Coronavirus Aid, Relief, and Economic Security (CARES) Act funding from the State of Ohio and Hamilton County in the amount of \$32.0 million, and one-time transfers of \$1.7 million. While the closeout process has identified funds to pay off the loan, there is still uncertainty as to additional dollars available for COVID-19 related unbudgeted expenditures. The Administration will monitor the situation closely but will likely need additional State and Federal dollars to assist with these unbudgeted expenditures during FY 2021.
- FY 2022 Projected Deficit – The Approved FY 2021 Budget Update document includes a General Fund long-term financial forecast and shows a preliminary deficit of \$7.2 million for FY 2022. This assumes a 2% increase for personnel and a 10% increase for healthcare. If contract negotiations result in higher increases, the projected deficit will increase.
- Stabilization Funds – The Stabilization Funds Policy, which was adopted by the City Council in June 2015 and amended in June 2019, directs specific amounts of funds to reserves based on estimated revenues. Specifically, the policy directive addresses four components: Working Capital Reserve, General Fund Contingency Account, Economic Downturn Reserve Account and the General Fund Carryover Balance. Overall, the Combined Reserves were increased from 12.03% to 13.28%.
- 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 – It should be stressed that the City remains over reliant on income tax revenue. The FY 2021 Income Tax estimate includes a 10% increase for FY 2022. If income tax does not rebound as estimated, the deficit will increase for FY 2022.

**Recommendation**

The Administration requests this report be approved and filed and will request the accompanying Ordinance for approval.

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