

October 7, 2024

**TO:** Members of the Budget and Finance Committee  
**FROM:** Sheryl M. M. Long, City Manager 202402131  
**SUBJECT:** FY 2024 Carryover to FY 2025 Report

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The following report provides an overview of the City of Cincinnati’s General Fund FY 2024 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2025 Budget considerations for discussion.

**General Fund 2024 Fiscal Year-End Balance and One-Time Uses**

As shown in the table below, the City’s General Fund ended FY 2024 with a carryover amount of \$65.0 million including \$7.3 million net FY 2023 carryover.

Utilizing the City’s Stabilization Funds Policy contributions will be made to the Cincinnati Retirement System (CRS) for unfunded pension obligations, Affordable Housing Trust Fund, and an Operating Budget Contingencies Account. There is \$18.4 million available for one-time infrastructure and capital uses.

The following table includes a breakdown of how the carryover will be applied:

**Application of FY 2024 Carryover Balance**

<b>Cash Basis Carryover Balance FY 2024</b>		\$ 64,974,804
<b>Uses of Carryover Balance</b>		
<b>Application of Stabilization Funds Policy:</b>		
Less General Fund Carryover Balance (1.5% of operating revenue )		\$ 8,414,485
Less Transfers to Reserve Accounts:		
General Fund Contingency Account (2.30% of operating revenue)	\$ 4,241,295	
General Fund Contingency Account for one-time needs	\$ 21,690,000	
Economic Downturn Reserve (5.00% of operating revenue)	\$ 1,128,610	
Working Capital Reserve (8.20% of operating revenue)	\$ 3,591,406	
Total Reserve Transfer from Stabilization Funds Policy		\$ 30,651,311
<b>Carryover Balance Less Total Applied to Stabilization Funds Policy</b>		<b>\$ 25,909,008</b>
<b>Less Modified Waterfall Uses:</b>		
CRS Pension Contribution		\$ 2,000,000
Affordable Housing Trust Fund		\$ 5,000,000
Operating Contingencies Account		\$ 500,000
<b>Balance Available</b>		<b>\$ 18,409,008</b>
<b>Less One-Time Uses:</b>		
Infrastructure and Capital Project Reserve		\$ 18,409,008
<b>Balance Available</b>		<b>\$ -</b>

**Uses of Carryover Balances**

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 recommendation of no less than two months of general fund operating revenues, or 16.70% of annual general fund operating revenues.

Per the Stabilization Funds Policy, the following transfers will be requested via ordinance: \$25.9 million to the General Fund Contingency Account, \$1.1 million to the Economic Downturn Reserve, and \$3.6 million to the Working Capital Reserve. Based on the policy, \$8.4 million will remain in the General Fund balance. The transfer to the General Fund Contingency account includes \$21.7 million for one-time needs which are itemized later in this report.

FY 2023 Balances After Close-out Adjustments		
Actual FY 2023 Revenue	\$573,645,786 *	
Working Capital Reserve	\$41,463,006	7.23%
General Fund Contingency Account	\$9,760,916	1.70%
Economic Downturn Reserve	\$26,919,674	4.69%
General Fund Carryover Balance (After Uses)	\$7,320,687	1.28%
Total Stabilization Policy Reserves	\$85,464,283	14.90%
30% Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$135,479,672	

\*This amount includes \$85.6M in ARP Revenue utilized in FY2023. The reserve percentage is 17.51% based on GF revenue only (excluding ARP).

Balances June 30, 2024 After Proposed Transfers		
Annual FY 2024 Revenue	\$560,965,684 <sup>1</sup>	
Working Capital Reserve	\$45,999,186	8.20%
General Fund Contingency Account	\$12,902,211 <sup>2</sup>	2.30%
Economic Downturn Reserve	\$28,048,284	5.00%
General Fund Carryover Balance (After Uses)	\$8,414,485	1.50%
Total Stabilization Policy Reserves	\$95,364,166	17.00%
Income Tax Reserve for Refunds	\$50,015,389	
Total Combined Reserves	\$145,379,555	

<sup>1</sup> This amount includes \$27,247,831 in ARP revenue. Without ARP revenue included the reserve percentage is 17.87%.

<sup>2</sup> This amount does not include the \$21,690,000 transferred to the reserve for one-time needs since this amount is planned to be utilized for FY 2025.

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 volatile interest rates, 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 reserves of 17.00% which is above the minimum 16.70% of annual General Fund operating revenue set aside in reserves in accordance with the Stabilization Funds Policy. The City's Stabilization Funds Policy is based on the GFOA's guideline that no less than two months of regular general fund operating revenue or regular general fund expenditures (or 16.70%) be maintained in reserves. While ARP revenue was not included in the reserve calculation for FY 2023, the Administration has taken a conservative approach to include it for FY 2024 to ensure fiscal sustainability as ARP dollars expire. The FY 2023 table above reflects the reserve level percentages based on the inclusion of ARP in the revenue total to show a consistent comparison. As detailed in the footnote, if ARP is excluded from the total revenue, the reserve level of 17.51% is achieved.

### **Stabilization Funds Policy Uses**

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

- \$21,690,000 transferred to the General Fund Contingency Account will be utilized for one-time needs as follows:
  1. Cincinnati Fire Department (CFD): Retroactive Pay and One-Time Lump Sum Payments (\$6.0 million) – The City's bargaining agreement with the International Association of Fire Fighters (IAFF) expired in December 2023 and a new contract was agreed to in September 2024. Funds will be used to cover the retroactive wage increase back to December 2023 as well as two one-time lump sum payments that IAFF members will receive.
  2. Cincinnati Police Department (CPD): Retroactive Pay (\$3.6 million) – The City's bargaining agreement with the Fraternal Order of Police (FOP) expired in April 2024 and a new contract was agreed to in September 2024. Funds will be used to cover the retroactive wage increase back to April 2024.
  3. Cincinnati Fire Department (CFD): FY 2025 Wage Increases (\$1.6 million) – Funds will cover the additional costs related to the newly agreed to bargaining agreement with the International Association of Fire Fighters (IAFF) beyond what was already included in the FY 2025 Approved Budget Update.
  4. Cincinnati Police Department (CPD): FY 2025 Wage Increases (\$4.2 million) – Funds will cover the additional costs related to the newly agreed to bargaining agreement with the Fraternal Order of Police (FOP) beyond what was already included in the FY 2025 Approved Budget Update.
  5. Cincinnati Retirement System (CRS): Internal Revenue Service (IRS) Tax Rule Compliance (\$2.0 million) – Funds will cover benefits received by retirees that exceeded the maximum amount allowable under Internal Revenue Code Section 415(b) from CRS. These funds will cover excess benefits paid since 2001 with one-time reimbursement required from a source other than the CRS Retirement Fund.

6. Cincinnati Fire Department (CFD): LifePak Medical Devices (\$990k) – Funds will be used for the capital acquisition of medical equipment with CFD replacing 22 LifePak medical devices (cardiac monitors) that will be out of warranty as of December 31, 2024.
7. Cincinnati Police Department (CPD): Mobile Data Computers (MDCs) (\$500k) – Funds will be used for the capital acquisition of information technology equipment with CPD replacing outdated MDCs in police vehicles. This is a \$1.0 million project with \$500k already allocated in the Approved FY 2025 Capital Budget. These funds will allow for the completion of the project.
8. City Manager’s Office (CMO): Downtown/Uptown Safety Funds (\$250k) – Funds will be deployed by the City Manager to provide additional public safety measures in the downtown and uptown areas of the City.
9. City Manager’s Office (CMO): Appropriations from FY 2024 that were not encumbered by June 30, 2024 (\$2.45 million) – Several contracts for which funds were appropriated in FY 2024 could not be completed by June 30, 2024. Those funds are included in the FY 2024 Carryover Balance and the contracts are now being completed for a variety of items including the Financial Freedom initiatives and leveraged support for childcare.
10. Department of Transportation and Engineering (DOTE): Lunken Airport Site Assessment (\$100k) – Funds will be utilized to conduct a site assessment for a permanent customs facility at Lunken Airport.
  - \$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).
  - \$2.0 million will be contributed to the Cincinnati Retirement System (CRS) to address unfunded pension obligations.
  - \$500,000 will be allocated to 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, \$18,409,008 is available for one-time uses for FY 2025. This amount will be set aside in a Infrastructure and Capital Project Reserve until City Council provides direction on the use of the funds.

**2025 Pending Matters**

There are several budget concerns for FY 2025 and beyond that are noteworthy. These include the following:

- FY 2025 Approved General Fund Budget Update – The Approved FY 2025 General Fund Budget Update is balanced, and it is structurally balanced for ongoing expenditures. It also includes the use of \$25.2 million in one-time American Rescue Plan (ARP) funds. The Administration will monitor the budget closely and report back to Council during FY 2025 on how actual revenues align with revenues projected in the Approved FY 2025 Budget Update.
- Labor Negotiations – While labor agreements with the International Association of Fire Fighters (IAFF) and the Fraternal Order of Police (FOP) have recently been finalized, all other bargaining unit contracts are set to expire over the next twelve months. The Cincinnati Organized and Dedicated Employees (CODE) contract expires during FY 2025 in March 2025. The remaining bargaining unit contracts expire during FY 2026 including the American Federation of State, County and Municipal Employees (AFSCME) and the AFSCME Municipal Workers contracts which expire in August 2025, the Cincinnati

Building Trades Council contract which expires in August 2025, and the Teamsters contract which expires in October 2025. Any wage increases agreed to above the amounts included in budget projections could increase projected deficits. Budget projections, including updated revenue projections, will be updated in December as part of the Tentative Tax Budget approval.

- FY 2026-2029 Projected General Fund Budget Deficits – The General Fund multi-year forecast for FY 2026-2029 as of June 30, 2024 shows expenditures growing at a faster pace than revenues. The projected General Fund budget deficits for FY 2026-2029 were \$6.5 million, \$11.0 million, \$15.8 million and \$20.9 million respectively. Since June 30, 2024, the City has negotiated labor contracts with the IAFF and FOP with wage increases that will increase expenditures and likely grow the projected FY 2026-2029 deficits. If future labor contracts with other bargaining units include wage increases above the amounts included in budget projections, that could also increase projected deficits. Budget projections, including updated revenue projections, will be updated in December as part of the Tentative Tax Budget approval.
- 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. S&P Global (formerly 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 2025 Income Tax estimate was based on the forecasted FY 2024 collections as of April, revenue trends, and the University of Cincinnati (UC) Economics Center’s forecast. The UC forecast also projects a compound growth rate of 1.21% in income tax revenue from FY 2024 – FY 2029. Income tax revenue has stabilized as employees are now permanently working remote and hybrid work schedules. However, it should be stressed that the City remains overly 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