

August 1, 2022

To: Mayor and Members of City Council
From: John P. Curp, Interim City Manager 
Subject: Report # 202201471 – Recommended Carryover Appropriation Process

Reference Document # 202201471

On June 23, 2022, City Council referred the following item for report:

MOTION, dated 06/17/2022, submitted by Councilmembers Landsman, Jeffreys, Owens, Harris, Cramerding and Vice Mayor Kearney, FY 2022 Closeout Budget. In anticipation of the upcoming closeout budget, WE MOVE that the Administration design a process to fund City Council's priorities after allocations are made. The process should intake, score, and recommend projects to Council (BALANCE OF STATEMENT ON FILE)

This report provides a recommended process to facilitate City Council in establishing priorities and processes for deploying funding available through the Fiscal Year (FY) 2022 carryover process.

In Ordinance No. 0056-2022, Council established an updated Stabilization Policy that provides a waterfall mechanism setting out the various uses of the end-of-year budget surplus. The updated policy continues the long-standing practice of committing a portion of the surplus to the City's financial reserves, with the goal of achieving financial reserves in aggregate totaling 16.7% of the City's general fund revenue in a given fiscal year. Any remaining surplus is then distributed as follows:

- 1) 50% to the Affordable Housing Trust Fund, up to \$5 million annually;
- 2) 33% to address any unfunded pension obligations, up to \$2 million annually;
- 3) 17% to establish an operating budget contingencies account for one-time unforeseen operating needs, up to \$500,000 annually; and
- 4) Any remaining surplus into an Infrastructure and Capital Project Reserve for one-time urgent capital needs.

In Motion #202201471, Council stated four priority areas for the FY22 closeout process: (1) deferred maintenance for City-owned buildings and infrastructure, (2) Affordable Housing Trust Fund, (3) Human Service Projects, and (4) Neighborhood Projects. The following report recommends a process for addressing these identified priorities—both in the operating and capital context.

Operating Budget Contingencies Account

The operating budget contingencies account is intended to be funding for one-time unforeseen operating needs. It is intended to primarily supplement the existing scope of operations and programs and accommodate unforeseen or higher than expected expenses identified for these operations and programs throughout the fiscal year.

In order to preserve some funding for not yet identified needs, the Administration recommends that no more than 50% of the operating budget contingencies account be appropriated through the carryover process in the fall of 2022 (a maximum of \$250,000). In the FY22 Carryover Report, the Administration will provide recommendations on operating needs that have been identified to date. It is recommended that a minimum of 50% of the available amount be held in reserve until the spring of 2023, to provide for a source of funding for additional unforeseen operating expenses that may come up throughout the remainder of the fiscal year.

This reserve is not intended to expand operations or programs that were not included in the fiscal year budget, since this practice risks increasing long-term operating expenses without a funding source and could lead to operating deficits in future fiscal years. As a result, the Administration does not recommend appropriating any of the operating budget contingencies account to external organizations for operating support, including human service organizations.

In the FY23 budget, Council appropriated a record amount of human service funding totaling approximately \$11.5 million, including establishing a new Boots on the Ground program that will further supplement the City's established United Way human services program. All human service organizations have the opportunity to compete for these resources, which are distributed through a transparent and competitive process. The Administration recommends that any human service organizations requesting City funds be directed to these established channels.

Infrastructure and Capital Project Reserve

The Infrastructure and Capital Project Reserve is intended to fund one-time infrastructure and capital projects that address identified urgent needs or otherwise provide resources in a reserve for the ensuing budget cycle to supplement available capital resources.

The Administration recommends the following processes for making appropriation decisions for each of the identified Council priority areas:

Deferred Capital Maintenance – The Administration recommends appropriating at minimum 50% of the Infrastructure and Capital Project Reserve for deferred capital maintenance. As part of the FY22 Carryover Report, the Administration will provide Council with a prioritized and recommended list of capital projects for City infrastructure or facilities.

Affordable Housing Trust Fund – As the deployment mechanism and parameters have already been established for deploying available affordable housing trust fund dollars through the partnership with the Cincinnati Development Fund, the Administration recommends that Council determine any amount in the Infrastructure and Capital Project

Reserve that are appropriate to supplement the amount otherwise contributed as part of the Stabilization Policy and then simply appropriate this supplemental amount in the same manner.

Human Service Projects – As described above, a material amount of operating support has already been provided for human service organizations in the FY23 budget, and the Administration does not recommend additional appropriations to this use. However, if Council determines that it would like to fund one-time capital expenditure needs of human service organizations, then the Administration recommends that Council focus on identifying the public need that it seeks to address through the capital investment and appropriate funds for that purpose. The Administration will then work to deploy and allocate these funds to projects through a Request for Proposals (RFP) or other competitive process, in partnership with the Human Services Advisory Committee.

Neighborhood Projects – For capital investment in neighborhood projects, the Administration recommends a two-prong approach.

First, an appropriation of approximately \$1.5 million 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. In the FY22 Carryover Report, the Administration will provide a list of recommended projects.

Second, an appropriation of any remaining amount of funding available for neighborhood projects to a capital account that will support a competitive RFP process with awards for large catalytic neighborhood projects. As part of the FY22 Carryover Report, the Administration will recommend an award and scoring criteria for this process and will seek Council feedback to ensure that such criteria will achieve Council’s priorities.

To support Council’s decision making, as part of the FY22 Carryover Report, the Administration will also provide a project information sheet on each neighborhood project identified by Council to date. This information will be collected and summarized by DCED staff to provide transparent and standardized information regarding each contemplated project. As described above, the Administration recommends that these projects be referred for inclusion in the RFP process described above.

Economic Development and Infrastructure Projects

Though not listed in the Council motion as a priority area, there is continued discussion about several large publicly-led economic development or infrastructure projects that may require City funding—such as the Convention Center District redevelopment. The Administration, in cooperation with Council and the Mayor’s Office, may recommend a portion of funding available in the Infrastructure and Capital reserve be appropriated for this type of project in the FY22 Carryover Report.

Income Tax Refund Set-Aside

During the FY21 carryover process, the Administration recommended a set-aside of the budget surplus in order to create a new financial reserve to address the liability associated

with income tax refund requests related to remote work. The Administration is still assessing the necessity of a similar set-aside and will make a recommendation in the FY22 Carryover Report, if warranted.

Next Steps

The Finance Department is working on closing out accounting records for the City's 2022 fiscal year. That process is expected to be completed in mid to late September. Following the closing of the fiscal year records, the Administration will produce the FY22 Carryover Report, with the information described in this report, and submit it and legislation to Council.