

October 16, 2023

**TO:** Members of the Budget and Finance Committee 202302199  
**FROM:** Sheryl M. M. Long, City Manager  
**SUBJECT:** FY 2023 Carryover to FY 2024 Report (B Version)

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The following report provides an overview of the City of Cincinnati’s General Fund FY 2023 year-end balance and application of the Stabilization Funds Policy adopted by the City Council. This report also includes FY 2024 Budget considerations for discussion.

**General Fund 2023 Fiscal Year-End Balance and One-Time Uses**

As shown in the table below, the City’s General Fund ended FY 2023 with a carryover amount of \$26.2 million including \$8.1 million net FY 2022 carryover.

Utilizing the City’s Stabilization Funds Policy as recently amended to include contributions to the Cincinnati Retirement System (CRS) for unfunded pension obligations, Affordable Housing Trust Fund, and an Operating Budget Contingencies Account, \$10.9 million is available for one-time uses. In line with the previous report, in this carryover report the Administration is recommending investments in Deferred Infrastructure and Capital Maintenance.

The following table includes a breakdown of how the recommended carryover will apply to reserves and the Administration’s recommended one-time uses.

**Application of FY 2023 Carryover Balance**

<b>Cash Basis Carryover Balance FY 2023</b>	\$ 26,239,980
<b>Uses of Carryover Balance</b>	
<b>Application of Stabilization Funds Policy:</b>	
Less General Fund Carryover Balance (1.5% of operating revenue )	\$ 7,320,687
Less Transfers to Reserve Accounts:	
General Fund Contingency Account (2.00% of operating revenue)	\$ 473,648
Economic Downturn Reserve (5.00% of operating revenue)	\$ -
Working Capital Reserve (8.2% of operating revenue)	\$ -
Total Reserve Transfer from Stabilization Funds Policy	\$ 473,648
<b>Carryover Balance Less Total Applied to Stabilization Funds Policy</b>	<b>\$ 18,445,646</b>
<b>Less Modified Waterfall Uses:</b>	
CRS Pension Contribution	\$ 2,000,000
Affordable Housing Trust Fund	\$ 5,000,000
Operating Budget Contingencies Account	\$ 500,000
<b>Total</b>	<b>\$ 7,500,000</b>
<b>Balance Available</b>	<b>\$ 10,945,646</b>
<b>Less One-Time Uses:</b>	
Administration's Recommended One-Time Uses	
Deferred Capital Maintenance - 65%	\$ 7,095,646
Industrial Site Redevelopment	\$ 1,600,000
West End Community Development Initiatives	\$ 2,000,000
Keep Cincinnati Beautiful (KCB) Capital Facilities Improvements	\$ 250,000
<b>Total</b>	<b>\$ 10,945,646</b>
<b>Balance Available</b>	<b>\$ 0</b>

**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 Ordinance No. 0253-2015 and subsequently amended in Ordinance Nos. 0213-2019 and 0056-2022, incorporates the GFOA’s recommended two months of general fund operating revenues, or 16.7% of annual general fund operating revenues.

Per the Stabilization Funds Policy, the following transfers will be requested via ordinance: \$473,648 to the General Fund Contingency Account. Based on the policy, \$7.3 million will remain in the General Fund balance.

FY 2022 Balances  
After Close-out Adjustments

Actual FY 2022 Revenue	\$538,393,480	
Working Capital Reserve	\$44,148,265	8.20%
General Fund Contingency Account	\$10,767,870	2.00%
Economic Downturn Reserve	\$26,919,674	5.00%
General Fund Carryover Balance (After Uses)	<u>\$8,075,902</u>	<u>1.50%</u>
Total Stabilization Policy Reserves	\$89,911,711	16.70%
30% Income Tax Reserve for Refunds	<u>\$50,015,389</u>	
Total Combined Reserves	<u>\$139,927,100</u>	

Balances June 30, 2023  
After Proposed Transfers

Annual FY 2023 Revenue	\$488,045,786	
Working Capital Reserve	\$41,463,006	8.50%
General Fund Contingency Account	\$9,760,916	2.00%
Economic Downturn Reserve	\$26,919,674	5.52%
General Fund Carryover Balance (After Uses)	<u>\$7,320,687</u>	<u>1.50%</u>
Total Combined Reserves	\$85,464,283	17.51%
Income Tax Reserve for Refunds	<u>\$50,015,389</u>	
Total Combined Reserves	<u>\$135,479,672</u>	

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 a weakened national economy, 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 maintained the minimum 16.7% of annual General Fund operating revenue set aside in reserves in accordance with Stabilization Funds Policy. The City's Stabilization Funds Policy is based on the GFOA's guideline that two months of regular general fund operating revenue or regular general fund expenditures (or 16.7%) be maintained in reserves. Given the ongoing impact that COVID had on revenue stability, the City took a very conservative approach in 2022 and opted to include American Rescue Plan (ARP) revenue in the reserve calculation to reflect the General Fund

expenses paid with ARP revenue. However, now that the City's revenue has stabilized to a "new normal," the Administration is comfortable with removing the ARP revenue from the calculation.

### **Amended Stabilization Funds Policy Uses**

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

- \$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.

The Administration recommends allocating 30% (or \$150,000) from the Operating Budget Contingencies Account to the following one-time needs in the City's FY 2024 General Fund Operating Budget:

- City Manager's Office: Records Digitization Project (\$45,000) – Funds will cover the cost of digitizing records for multiple departments including Law and Buildings and Inspections.
- City Manager's Office: Special Events Detail Costs (\$50,000) – Funds will cover additional costs for city staff details for various special events occurring in the City.
- Department of Community and Economic Development: Tax Abatement Study (\$55,000) – Funds will cover the cost of a tax abatement study with the City and Cincinnati Public Schools (CPS).

The Administration recommends that the remaining \$350,000 be held in reserve in 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, \$10,945,646 is available for one-time uses for FY 2024. Below are the Administration's recommendations on how to use these funds, based on Mayoral and City Council priorities.

#### *Administration's Recommended One-Time Uses*

- Deferred Capital Maintenance (\$7,095,646) – The recommended \$7,095,646 allocation will provide funding to address the backlog of deferred maintenance of the City's capital assets as well as information technology equipment and represents 65% of the \$10,945,646 available for one-time uses. The recommended projects include the following amounts by department:
  - Enterprise Technology Solutions – \$1,795,646
    - \$795,646 to replace radios used by multiple City Departments including Police and Fire
    - \$500,000 for Lifecycle Asset Replacement of Windows based devices
    - \$250,000 to install, repair, and replace uninterruptable power supply (UPS) systems at all network locations

- \$250,000 to replace the City’s phone systems and provide a unified communications system
- City Manager’s Office – \$400,000
  - An additional allocation of funds for the Office of Environment and Sustainability (OES) to add two new locations (Millvale and Evanston) as Solar Panel Battery Backup Resiliency Hubs
- Department of Community and Economic Development – \$1,000,000
  - Funds for the Division of Parking Services for improvements to off-street parking garages
- Department of Public Services – City Facilities Management (CFM) – \$3,400,000
  - \$1,000,000 for asbestos abatement at various City facilities
  - \$1,000,000 for improvements at public safety facilities
  - \$500,000 for the Fire Training Center
  - \$400,000 for an electrical Arc Flash Hazard Study and mitigation efforts
  - \$250,000 for heating, ventilation, and air conditioning (HVAC) upgrades at various City facilities
  - \$250,000 for safety upgrades at various City facilities
- Department of Public Services – Fleet Services – \$500,000
  - Funds to replace the Cincinnati Police Department’s Special Weapons and Tactics (SWAT) vehicle
- Industrial Site Redevelopment (\$1,600,000) – Funds will be used for industrial site redevelopment projects in conjunction with The Port.
- West End Community Development Initiatives (\$2,000,000) – Funds will be used for various community development initiatives in the West End neighborhood.
- Keep Cincinnati Beautiful (KCB) Capital Facilities Improvements (\$250,000) – Funds will be used to support KCB’s efforts for capital facilities improvements.

### **2024 Pending Matters**

There are several budget concerns for FY 2024 and beyond that are noteworthy. These include the following:

- FY 2024 Approved General Fund Budget – The Approved FY 2024 General Fund Budget was balanced but not structurally balanced due to the reliance on \$28.2 million in one-time American Rescue Plan (ARP) funds. The Administration will monitor the budget closely and report back to Council during FY 2024 on how actual revenues align with revenues projected in the Approved FY 2024 Budget.
- FY 2025 Projected General Fund Budget Deficit – The Approved FY 2025 General Fund Budget is balanced but not structurally balanced due to the reliance on \$25.2 million in one-time American Rescue Plan (ARP) funds. FY 2025 is the final year for the use of ARP funds, but even with this resource, a General Fund deficit of \$9.4 million is projected. Expenditures are projected to grow at a faster pace than revenues with the income tax projected to be flat as compared to FY 2024.

- FY 2026-2028 Projected General Fund Budget Deficits – The General Fund multi-year forecast for FY 2026-2028 shows expenditures growing at a faster pace than revenues and assumes that most revenue growth following the COVID-19 pandemic subsides. The projected General Fund budget deficits for FY 2026-2028 are \$34.9 million, \$44.9 million, and \$55.1 million respectively.
- 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 2024 Income Tax estimate was based on the forecasted FY 2023 collections as of April, revenue trends, and the University of Cincinnati (UC) Economics Center’s forecast. The UC forecast also projects relatively flat growth in income tax revenue from FY 2025 – FY 2028. Income tax revenue has stabilized as employees are now permanently working remote and hybrid work schedules. While there has not been a sharp increase in refund requests, there remains a refund liability to the City for a running three-year period while employees remain eligible for a refund. 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