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Financial & Operational Assessment Status Update to County Commissioners

Hamilton County, Ohio • Cincinnati Regional Business Committee •

Cincinnati Business Committee

October 1, 2019

Revised

Background



The Board of County Commissioners, Cincinnati Regional Business Committee (CRBC) and Cincinnati Business Committee (CBC) engaged Crowe LLP (Crowe) to **review Hamilton County's current financial and operational state.**

The purpose of the review is to provide an independent **assessment of the causes of the County's structural deficit and identify opportunities to enhance revenue, reduce costs and create efficiencies.** The focus of the assessment and report is on the chief operating fund of the county – the county's **general fund.**

Two phases:

Phase 1: Identify the causes of the County's financial situation and identify alternatives and options for addressing the projected deficit through spending reductions, new revenues and enhanced efficiencies.

Phase 2: Examine the long-term sustainability of the County's finances with a focus on structural modifications, opportunities to engage other local governments and diversifying the County's tax base and revenues.

Financial Assessment Observations



The analysis of **county financials explored 2008 to the present**. **Key observations** from the assessment, with a focus on the general fund, include the following:

Revenues have not been growing at the same rate as expenses

Revenues have been in alignment with budget while expenditures exceed budget annually

Intergovernmental funds continue to fluctuate (state funds, federal grants)

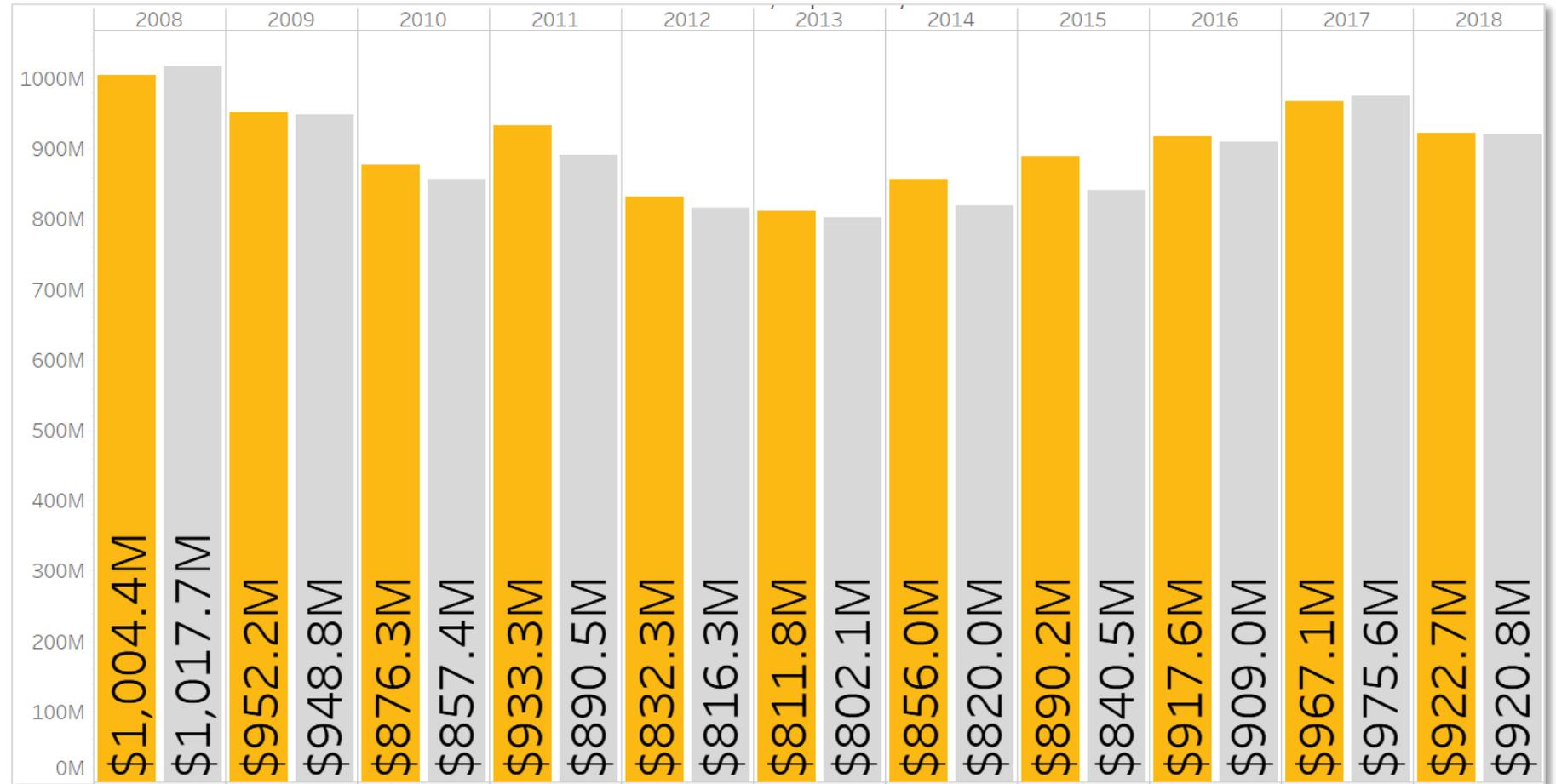
Unclear if costs of delivering services are covered by user fees (licenses, fees, fines, etc.)

General fund revenues trail peer Ohio counties on a per capita basis

Financial Assessment | Historical Revenue & Expenses – All Funds



An eleven-year look back demonstrates a shrinking budget for Hamilton County, **dropping from over \$1 billion in 2008 to \$922.7 million in 2018**. This view demonstrates the fluctuation in the county's revenue and expenses for all general and restricted funds.



| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------|-------|-------|------|--------|-------|------|------|------|------|-------|
| Revenues | -5.2% | -8.0% | 6.5% | -10.8% | -2.5% | 5.4% | 4.0% | 3.1% | 5.4% | -4.6% |
| Expenses | -6.8% | -9.6% | 3.9% | -8.3% | -1.7% | 2.2% | 2.5% | 8.1% | 7.3% | -5.6% |

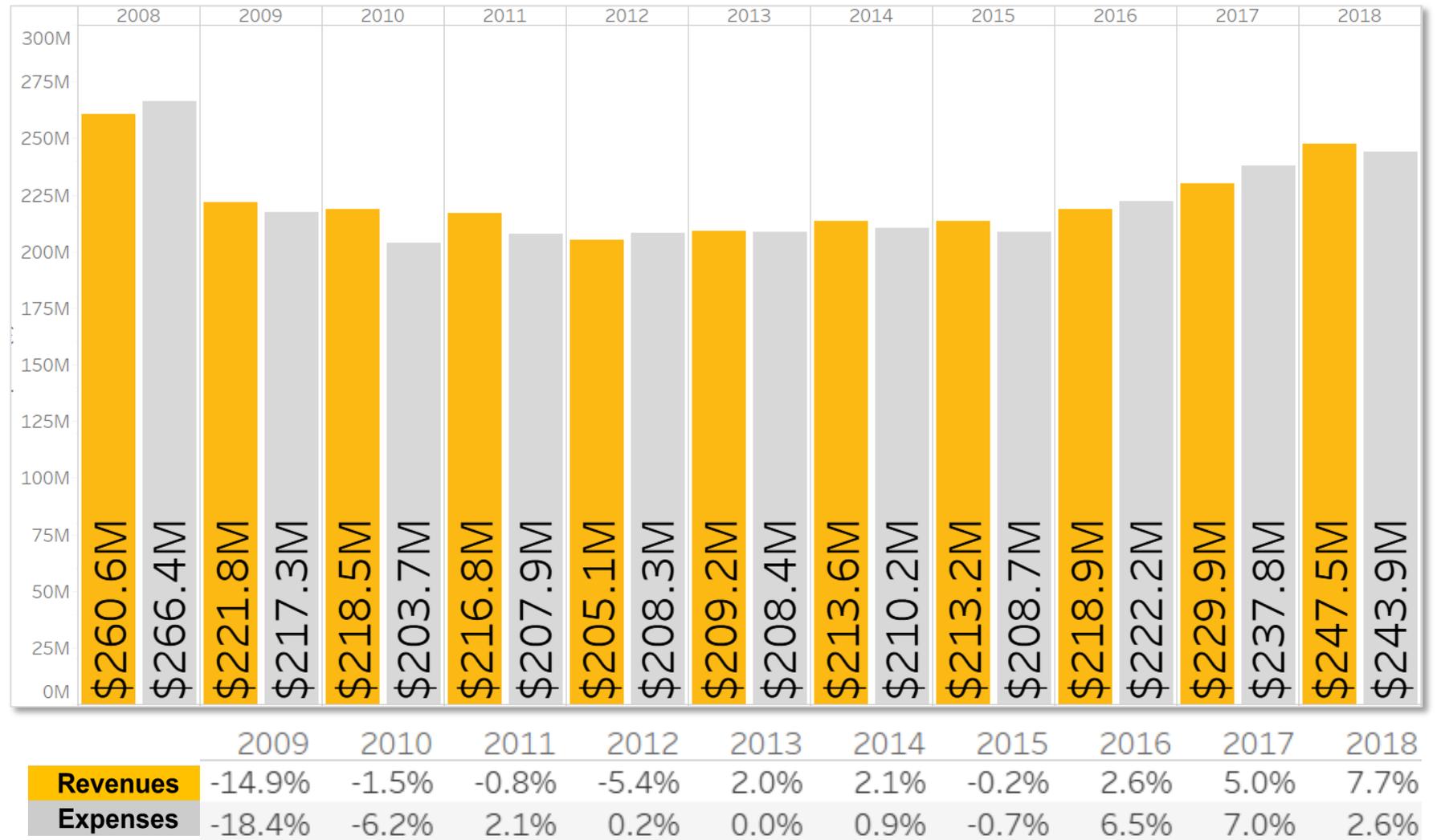
Percent Change from Prior Year

Financial Assessment | Historical Revenue & Expenses – General Fund



The eleven-year look back demonstrates a shrinking **general fund** budget for Hamilton County, **dropping from \$260.6 million in 2008 to \$247.5 million in 2018.**

General fund revenues and expenses have been increasing at a faster pace since 2015.



Percent Change from Prior Year

Financial Assessment | General Fund Revenues – All Sources by Type



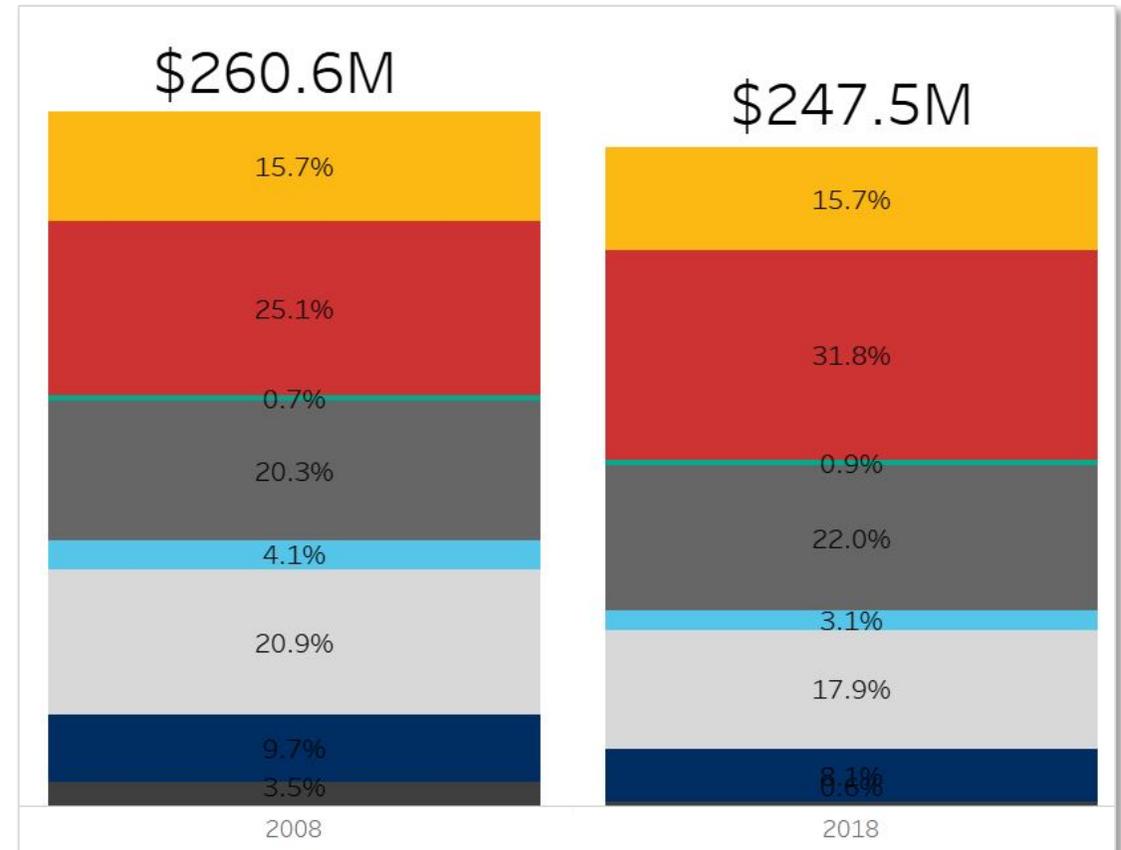
7 primary revenue sources exist within the general fund:

- Property
- Sales & Use Taxes
- Licenses
- Service Fees
- Fines & Forfeitures
- Intergovernmental
- Misc. Revenues

The mix of revenue has shifted slightly by source between 2008 and 2018.



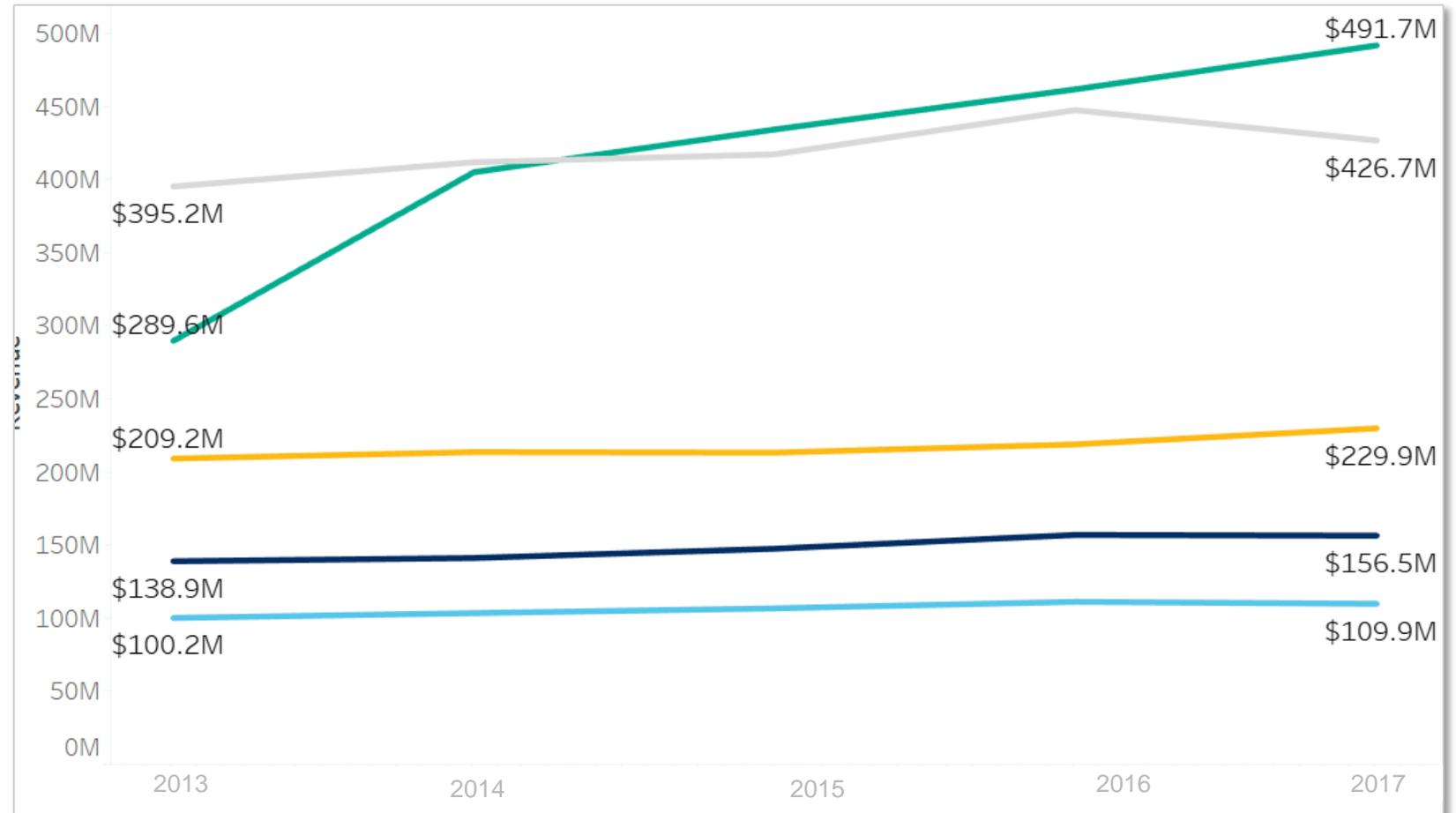
General Fund Revenue Mix – 2008 vs. 2018



Financial Assessment | Peer Comparisons: All General Fund Revenue



Hamilton County's general fund revenues have remained relatively flat between 2013 – 2017, similar to Montgomery and Summit. Franklin has experienced growth in this timeframe, likely due to the increase in sales tax, with Cuyahoga's revenues showing fluctuation.



Financial Assessment | Ohio Peer Comparisons: All Revenue Sources



Ohio peer counties have at least **one revenue source that comprises close to 40% or more of the general fund's total revenues except Hamilton County**. Given the difference in general fund revenue composition, Hamilton County is potentially more reliant on the revenues of smaller revenue sources to support core operations.

| 2018 General Fund Revenues | | | | | |
|----------------------------|---------------------|---------------------|---------------------|-----------------------|-------------------|
| | Hamilton County, OH | Franklin County, OH | Cuyahoga County, OH | Montgomery County, OH | Summit County, OH |
| Property Tax | 16% | 10% | 3% | 8% | 19% |
| Sales Tax | 32% | 63% | 54% | 46% | 39% |
| Charge for Services | 22% | 11% | 15% | 11% | 13% |
| Fines and Forfeitures | 3% | 1% | 2% | 1% | 0% |
| Intergovernmental | 18% | 8% | 9% | 11% | 8% |
| Misc. Revenue | 9% | 7% | 17% | 23% | 21% |

Note: Summit Miscellaneous includes interest, miscellaneous and other taxes, Franklin Miscellaneous includes Investment Earnings, Other Financing Sources, Interfund, Cuyahoga Miscellaneous includes Other Taxes, Investment Earnings and Miscellaneous. Montgomery Miscellaneous includes Miscellaneous, Licenses and Permits, Other Taxes and Miscellaneous.

Financial Assessment | Peer Comparisons: All Expenditures



Hamilton County's general fund expenditures are **budgeted to be less than peer counties** as a percentage of total expenditures in 2019.

2019 Budgeted Expenditures – General Fund vs. Total

| County | Total Expenditures | Total General Fund Expenditures | General Fund Expenditures as Percent of Total |
|-----------------------|--------------------|---------------------------------|---|
| Hamilton County, OH | \$1.2B | \$0.2B | 16.7% |
| Franklin County, OH | \$1.3B | \$0.5B | 38.5% |
| Cuyahoga County, OH | \$1.5B | \$0.4B | 26.7% |
| Montgomery County, OH | \$0.9B | \$0.2B | 22.2% |
| Summit County, OH | \$0.5B | \$0.1B | 20.0% |

General Fund Revenues | General Fund Balance & GFOA Comparison



The Government Finance Officers Association (GFOA) recommends, at a minimum, that governments maintain an unrestricted general fund balance of no less than two months of operating revenues.

Based on our analysis of the past 5 years, **Hamilton County is below GFOA's best practice of adequate general fund reserves.**



Source: 2019 Hamilton County Budget in Brief

Note: 2019 uses budgeted revenues and projected fund balances per the Budget in Brief

Operational Assessment Observations



Crowe performed an analysis on **county operations**, through interviews, a survey and document review. **Key observations** from the assessment include the following:

Duplication may exist in supporting functions across departments (finance, operations and IT)

Challenges appear to exist with attracting and retaining staff in high-skill areas

Personnel expenses are on the rise likely due to increases in healthcare costs and added staff

Deferrals in facilities maintenance has continued to push building repairs into the future

IT systems are aging which may create inefficiencies and may be expensive to maintain

Opioid epidemic appears to be impacting the workload of public safety and judicial services

Program areas, including most non-mandated services, have been cut or reduced since 2009

Operational Assessment | Cost Reduction Initiatives



Hamilton County has implemented **numerous cost saving actions since 2008**. The following slides provides a year by year summary of cost reductions, including the projected savings, as outlined in the county's annual budget books.

| Year | Cost Reduction Action | Projected Savings in Thousands |
|------|---|--------------------------------|
| 2008 | Consolidation of support functions in Job and Family Services | \$7,550 |
| 2008 | Reductions in Capital Equipment and Maintenance | \$1,900 |
| 2008 | Reductions in outside legal counsel, judgments and claims, retirement payouts, and unearmarked contingencies | \$1,500 |
| 2008 | Refinement of the workers compensation insurance rate | \$880 |
| 2008 | Suspension of the employee tuition assistance program | \$250 |
| 2008 | Termination of inmate housing in Butler County and the Sheriff's patrol of Over-the-Rhine | \$7,800 |
| 2008 | Reduction of support for various program | \$1,200 |
| 2008 | Reduction of personnel, information technology, and maintenance in County Facilities, Personnel departments and Admin. | \$1,600 |
| 2008 | Reorganization of the Public Works department, including realignment of the capital improvement section within Facilities | \$137 |
| 2008 | Suspension of SORTA reverse-commute bus service and the home improvement loan program (HIP) | \$99 |
| 2008 | Allocation of expenses to other funding sources | \$3,610 |
| 2008 | Fee changes | \$8,205 |

Operational Assessment | Cost Reduction Initiatives (continued)

| Year | Cost Reduction Action | Projected Savings in Thousands |
|------|--|--------------------------------|
| 2009 | Closure of the 822-bed Queens gate jail and significantly shifts the cost of the Sheriff's township patrols to the townships | \$1,650 |
| 2009 | Consolidated Building and Development with building and stormwater inspection, planning and zoning, sewer district oversight and community development | \$200 |
| 2009 | Reductions in County Administration comprised five positions, including one assistant county administrator | \$477 |
| 2009 | Facilities reduced 11.5 positions, while accounting for a \$1M increase in utility costs | \$3,700 |
| 2009 | Adjustments to county employee health and dental plans, including a new spousal surcharge and redistribution of cost | \$4,000 |
| 2009 | Reduced capital outlay planned spend | \$2,900 |
| 2009 | Reductions in overtime, particularly in the Sheriff's office, the Board of Elections, Juvenile Court and County Facilities | \$1,400 |
| 2009 | Reduced budget for travel and subscription services | \$120 |
| 2010 | Transition to a self-insured health insurance program and other changes anticipated to reduce health insurance costs | \$7,500 |
| 2016 | 1.5% compensation adjustment for employees effective in January 2016, instead of the 3% proposal | \$1,100 |
| 2017 | Stadium debt service refinancing debt at lower rates in 2016 | \$6,000 |
| 2017 | Developmental Disabilities Services privatization of the adult centers | \$5,000 |

The cost reduction areas identified in the budget books from 2008 – 2017 were estimated to **save over \$68.7 million**.

2020 Proposed Budget and 2019 – 2024 General Fund Pro Forma

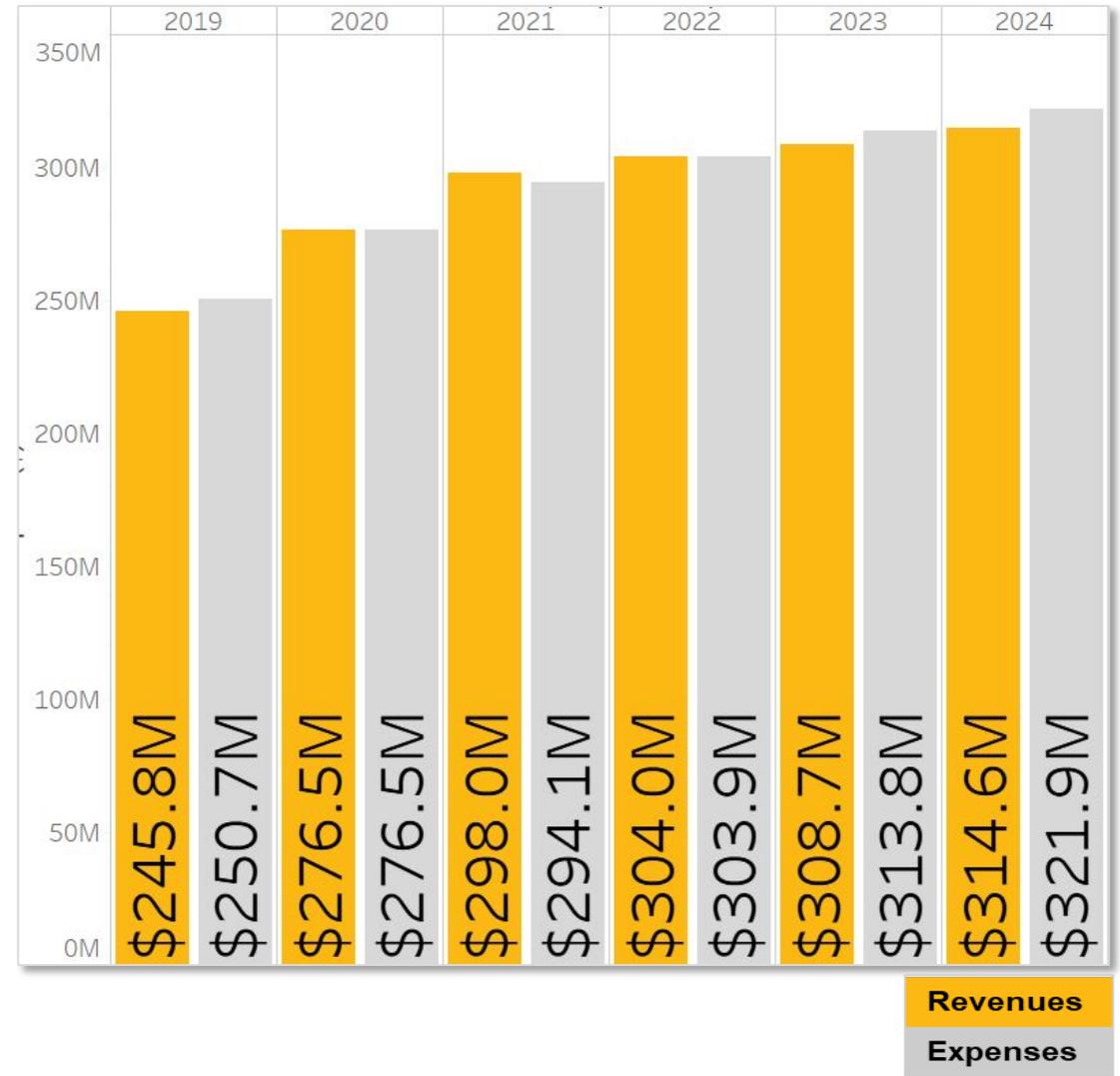


Hamilton County, similar to many other communities across the nation, experienced **declining revenues** beginning in 2008, which have yet to fully recover.

The county **projects a structural imbalance in the 5-year pro forma for the general fund** even with an assumed sales tax of .25% added to support the general fund starting in mid-2020 (the pro forma budget assumes .25% currently dedicated to another fund will be approved to support the general fund beginning mid-2020).

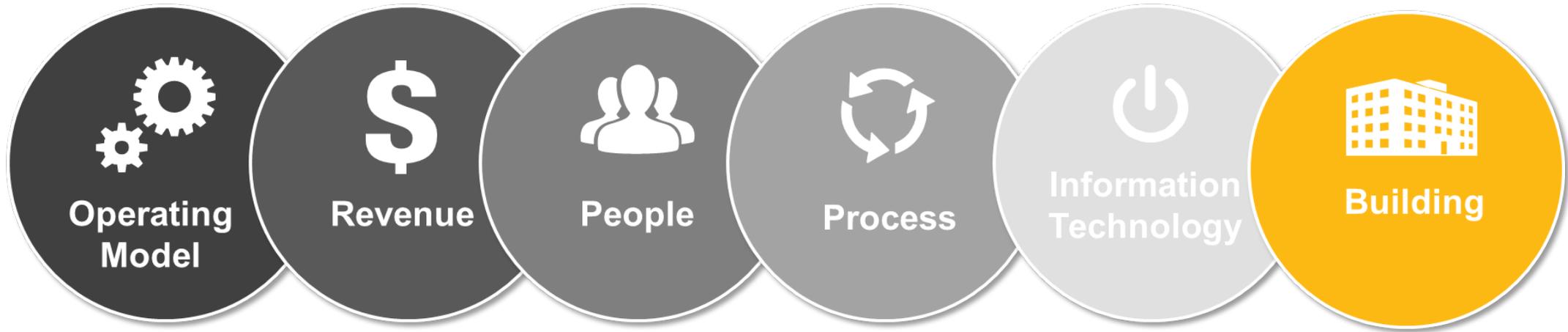
Based on the assessment, **the imbalance of \$20M+ in the general fund will require revenue enhancement in 2020**. The .25% sales tax dedicated to the general fund will allow for the 2020 general fund budget to more closely balance, when coupled with efficiencies.

General Fund Pro Forma: 2019 – 2024



Potential Opportunities for Further Exploration

Potential opportunities have been identified that may result in **spending reductions, new revenues and enhanced efficiencies**. These potential opportunities fall into the following six categories:



Each opportunity may be assessed looking at key business drivers and implementation considerations:

Business Drivers

- Increase Revenues
- Reduce Costs
- Avoid Costs
- Recurs
- Creates Operational Efficiencies

Implementation Considerations

- Complexity to Implement
- Timeframe Required to Implement
- Financial Cost to Implement

Potential Opportunities for Further Exploration (continued)

Operating Model

- Explore opportunities for shared services in finance, procurement, HR and IT to potentially create efficiencies and reduce costs of delivering internal services

Revenue

- Assess cost of delivering services and alignment of fees
- Explore opportunities to increase revenues through grants and other intergovernmental funds
- Assess overall tax environment including sales, property, and other use taxes

People

- Conduct a compensation study
- Explore a strategic talent management plan

Process

- Explore ways to increase the economic base through coordinated economic development activities
- Explore county-wide grant management
- Explore enhanced budget to actuals process

Information Technology

- Explore an enterprise IT plan
- Explore opportunities to create efficiencies through online services which may reduce costs

Building

- Explore opportunities for county-owned real estate

Thank You and Questions

