

To: Mayor Andrew J. Ginther
Columbus City Councilmembers
City Attorney Zach Klein

From: City Auditor Megan Kilgore
Date: October 21, 2022

2023 Official Revenue Estimate

Dear Colleagues:

Amid much uncertainty these past three years, one thing is certain: the City's economy continues to show resilience. I do not remember a time when we have navigated more countervailing forces. A pandemic-forced shutdown followed by unprecedented wage inflation. Supply chain limitations in the midst of extraordinary levels of federal stimulus. Businesses closed, yet an incredible \$2.5 billion of PPP funding fueled growth for others in Columbus. Remote work's income tax implications offset by new, high-wage paying jobs in our expanding sectors.

Eyes will be on the national economy as we approach 2023. Many of the variables we have considered for the City's 2023 Official Revenue Estimate remain out of the City's direct control, including geopolitical tensions and their impact on the supply chain and how inflation and interest rate levels will impact local business and consumer decisions. There are four primary areas we will be monitoring:

1. Direct and indirect impacts from national economy
2. Remote work and its ongoing effect on the City's income tax revenues
3. Local employment trends
4. Income tax refunds due to remote work in 2020 (Ohio Supreme Court decision)

See the attached NOTES to this Revenue Estimate for more detail in each of these areas.

General Fund resources for 2023 are forecasted to be \$1.144 billion, an increase of 1.84% as compared to the 2022 Revised Revenue Estimate of June 2022. We will closely monitor the actual impacts to revenues in the first quarter of 2023 and will update projections as needed.

We endeavored to provide a lot of useful information in the ensuing document. Please contact me with any follow-up questions.



Megan N. Kilgore
City Auditor



October 21, 2022

2023 Official Revenue Estimate

Per the Charter of the City of Columbus, the Mayor’s estimate of the expense of conducting the affairs of the City for the following fiscal year shall be submitted to City Council on or before the fifteenth day of November in each year. The estimate shall be compiled from certain information obtained from various City departments, including a statement from the City Auditor of the total probable revenue for the period covered by the Mayor’s estimate. This statement shall serve as the City Auditor’s Statement of Available Resources for Fiscal Year 2023.

Statement of Estimated Available Resources

	Original Estimate
<i>ESTIMATED GENERAL OPERATING FUND REVENUE:</i>	
Income taxes	\$831,592,000
Property taxes	63,000,000
Investment earnings	25,310,000
Licenses and permits fees	11,016,000
Shared revenue	35,791,000
Charges for services	71,350,000
Fines, forfeitures and penalties	7,860,000
Miscellaneous revenue	5,500,000
TOTAL ESTIMATED RESOURCES FROM REVENUE	\$1,051,419,000
TOTAL TRANSFERS IN	6,500,000
TOTAL ESTIMATED RESOURCES AND TRANSFERS	\$1,057,919,000
Estimated prior year encumbrance cancellations	5,000,000
Estimated 2022 Year End Fund Balance	81,081,000
TOTAL ESTIMATED AVAILABLE RESOURCES GENERAL OPERATING FUND	\$1,144,000,000
<i>UNENCUMBERED CASH AVAILABLE IN OTHER GENERAL FUND SUBFUNDS:</i>	
Estimated Unencumbered Cash – JOB GROWTH [100015]	\$ 1,020,312
Estimated Unencumbered Cash – PUBLIC SAFETY INITIATIVE [100016]	688,654
Estimated Unencumbered Cash – BASIC CITY SERVICES [100017]	49,669,492
Estimated Unencumbered Cash – NEIGHBORHOOD INITIATIVE [100018]	2,448,888
TOTAL ESTIMATED AVAILABLE RESOURCES	\$1,197,827,346

This estimate includes an increase in 2023 income tax revenue of 3% as compared to the anticipated income tax revenue of \$807.371 million for the year ended December 31, 2022.



In addition to the total resources estimated for the General Operating Fund, there is an estimated \$53.8 million in unencumbered cash in other General Fund subfunds, which could be transferred to the General Operating Fund to cover the cost of basic city services. If the unencumbered balances in these General Fund subfunds were transferred to the General Operating Fund, total estimated available resources would be \$1.198 billion for 2023.

See “Notes to the City Auditor’s Statement of 2023 Estimated Available Resources” for additional information.

CITY OF COLUMBUS, OHIO
NOTES TO THE CITY AUDITOR'S STATEMENT OF 2023 ESTIMATED AVAILABLE RESOURCES
GENERAL OPERATING FUND

NOTE 1 – GENERAL OPERATING FUND RESOURCES

The 2023 General Operating Fund total estimated *revenues* for the City of Columbus (“City”) are approximately \$1.051 billion. The revenue is generated through income tax, property tax, licenses and permit fees, fines, forfeitures and penalties, investment earnings, charges for services, shared revenue, and miscellaneous revenue.

Total 2023 estimated *resources* for the General Operating Fund, which include revenues, transfers in, estimated cancellations of prior year encumbrances and the estimated year-end cash balance at December 31, 2022 are \$1.144 billion.

Total estimated revenues for 2023 increased \$53.2 million or 5.33% as compared to the revised estimated revenues for 2022 of \$998 million. Total estimated resources for 2023 represent a \$20.6 million or 1.84% increase as compared to the estimated total resources for 2022 of \$1.123 billion. The table below displays the total amount of estimated revenue attributable to each revenue category for both 2023 and 2022 and the actual revenue collected for 2021.

(\$ in thousands)

Revenue Categories	2021		2022		2023	
	Actual	% to Total	Revised Estimate	% to Total	Original Estimate	% to Total
Income Taxes	\$776,095	79.7%	\$799,371	80.1%	\$831,592	79.1%
Property Taxes	60,174	6.2%	63,623	6.4%	63,000	6.0%
License and permit fees	8,825	0.9%	11,016	1.1%	11,016	1.0%
Fines, forfeitures and penalties	13,572	1.4%	7,663	0.8%	7,860	0.8%
Investment earnings	9,512	0.9%	8,000	0.8%	25,310	2.4%
Charges for service	63,266	6.5%	67,962	6.8%	71,350	6.8%
Shared revenue	32,632	3.4%	35,087	3.5%	35,791	3.4%
Miscellaneous revenue	9,266	1.0%	5,465	0.5%	5,500	0.5%
Resources from revenue	\$973,342	100.0%	\$998,187	100.0%	\$1,051,419	100.0%

NOTE 2 – INCOME TAXES

Income tax revenue represents approximately 79% of total General Fund revenues for 2023.

Total income tax revenues for 2023, after providing for refunds to taxpayers, are estimated at \$1.109 billion. One fourth of the collections will be deposited into a debt service fund, more commonly known

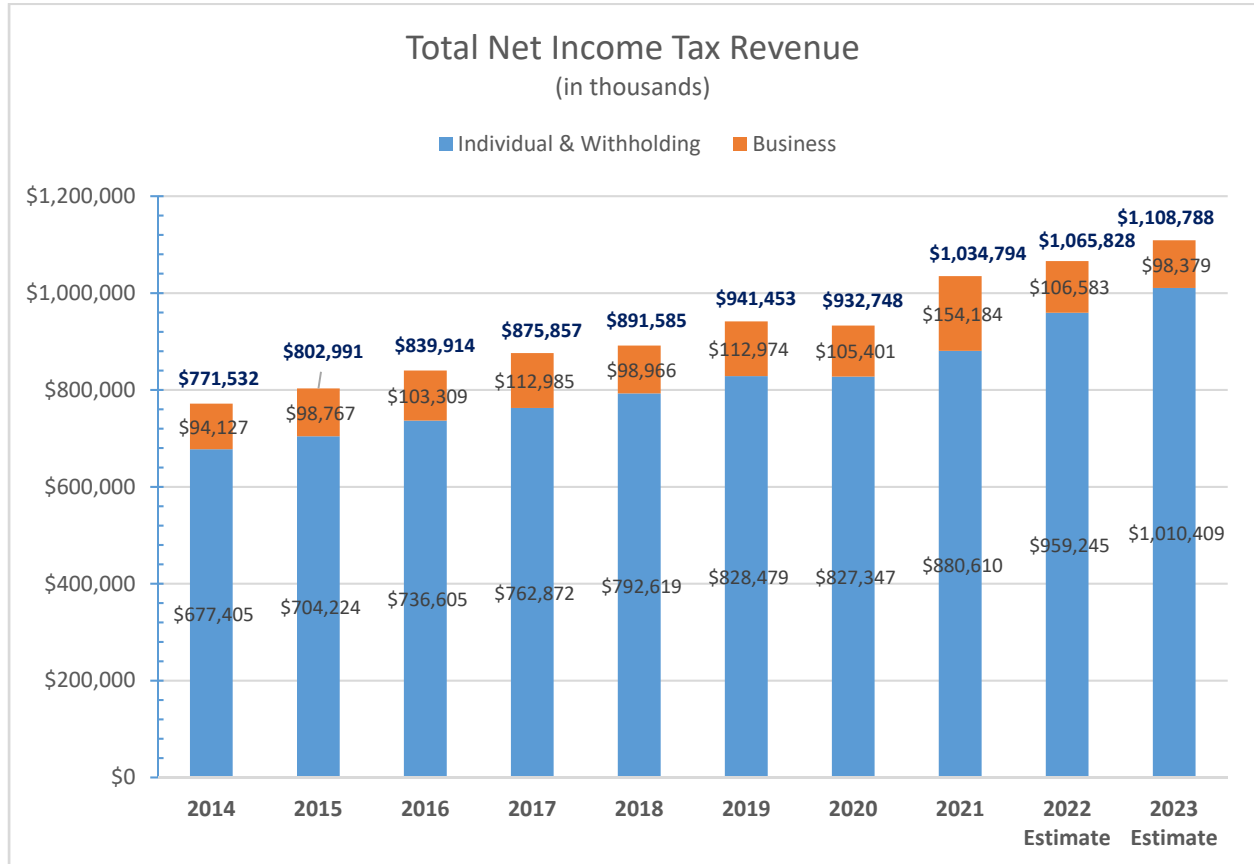
CITY OF COLUMBUS, OHIO

NOTES TO THE CITY AUDITOR'S STATEMENT OF 2023 ESTIMATED AVAILABLE RESOURCES

GENERAL OPERATING FUND

as the "Special Income Tax Fund." The remaining three fourths of the collections, approximately \$831.592 million, will be deposited in the City's General Operating Fund. The City's current income tax rate is 2.5%, which is levied on all wages, salaries, commissions, other compensation paid to employees, and on net profits of business operations in the City.

The 2023 General Fund income tax revenue was estimated based on projections for employment levels, realized wage inflation, and work from home trends. The graph below shows total income tax collections/estimates for a 10 year period.



Direct and Indirect Impacts from National Economy

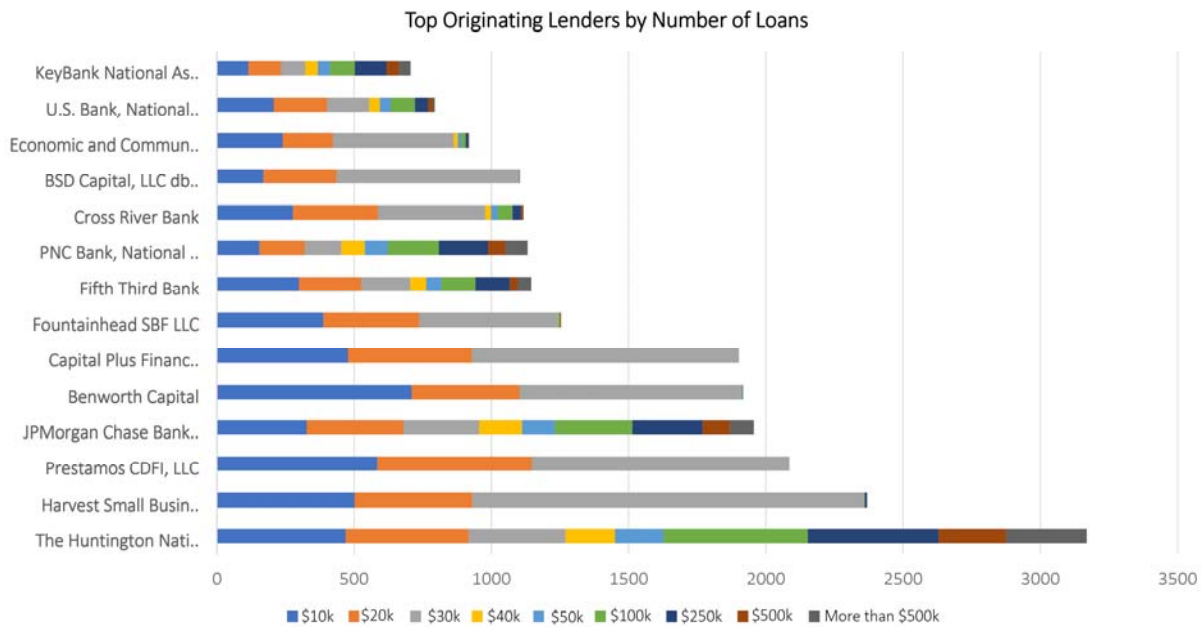
Economic growth is slowing, but only time will tell how much key variables including the Fed's monetary policy decisions, the impact to various global markets as a result of the Russian invasion of Ukraine, and inflation ultimately affect the local economy. At present, we believe it is likely for certain local sectors to be adversely impacted in late 2022/early 2023 versus a comprehensive "downturn" involving numerous sectors. As high interest rates continue, for example, we anticipate that lenders will eventually have to take losses on existing mortgages; as such, the financial system might show levels of stress. Although some measurements of U.S. economic activity are decelerating, employment broadly remains strong.

One of the most important factors we are watching is the impact of *outgoing* dollars from Federal COVID-19 funding initiatives on the City's local economy. Governments, businesses, nonprofits, and households

CITY OF COLUMBUS, OHIO
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GENERAL OPERATING FUND

benefitted from various types of stimulus, such as the Paycheck Protection Program (PPP), Economic Impact Payments, and Enhanced Unemployment Insurance. Across the board, spending resulted, creating volatile growth in the City's income tax collections in 2021 and 2022.

In Columbus, over \$2.5 billion in PPP funding was distributed via nearly 32,000 loans, many of which were forgiven. Decoupling the impact these (forgiven) loans and other stimuli had on our local economy from real (i.e. typical) economic activity is nearly impossible, for the funds were used for a variety of purposes, in various amounts, and we can only make reasonably informed projections. To illustrate the range of loans and loan amounts that originated in the City, see the below table. Many more originating lenders were active with PPP distribution; only the top originators are shown.



Source: US Small Business Administration

Remote Work and Its Effect on the City's Income Tax Revenues

We continue monitoring remote work trends and the corresponding impacts on income tax collections. Through 2022, revenue declines resulting from remote work have been masked by wage inflation, early January/February bonuses, stimulus, and new jobs. Many employers have yet to fully implement technology systems to track remote work and withhold correctly. Predicting the long-term levels of remote work and the length of time it will take for employers to implement withholding processes is difficult. We expect that it will take some time for revenues to fully reflect remote work.

Local Employment Trends

Job growth, while slower than 2021, remains above our earlier estimates. Per the U.S. Bureau of Labor Statistics, jobs in Columbus rebounded to pre-pandemic (peak year: 2019) levels this past August. Not all sectors have exceeded 2019 numbers; notably, finance and insurance, administrative support, and

CITY OF COLUMBUS, OHIO

NOTES TO THE CITY AUDITOR’S STATEMENT OF 2023 ESTIMATED AVAILABLE RESOURCES
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arts/recreation/leisure jobs remain behind. Hiring remains strong, however, in transportation and warehousing, accommodation and food services, and construction.

We anticipate benefitting from ongoing growth in certain sectors, particularly industries supporting emerging businesses in technology, biotech, and innovative sciences. We continue to see investments in these sectors and expect growth in jobs — both on-site and remote — to occur concurrently.

A four-year analysis of jobs, by North American Industry Classification System (NAICS) code designation, and their respective +/- changes is below. Also presented is the Ohio wage growth through the second quarter of 2022, as compared to the first quarter of 2020.

NAICS	2019	2020		2021		2022		WAGE GROWTH Ohio Earnings Q2 2022 v. Q1 2020
	# Columbus Jobs	Annual Average	% Change	Annual Average	% Change	Columbus - Average thru August	% Change	
Agriculture, Forestry, Fishing and Hunting	263	N/A		N/A		N/A		N/A
Mining, Quarrying, and Oil and Gas Extraction	262	N/A		N/A		N/A		N/A
Utilities	2,693	2,687	-0.2%	2,693	0.2%	2,724	1.1%	2.0%
Construction	23,180	23,915	3.2%	24,537	2.6%	25,555	4.1%	14.9%
Manufacturing	26,062	24,960	-4.2%	25,564	2.4%	25,778	0.8%	8.0%
Wholesale Trade	18,723	17,880	-4.5%	18,146	1.5%	18,812	3.7%	17.4%
Retail Trade	47,719	45,735	-4.2%	47,199	3.2%	47,577	0.8%	16.8%
Transportation and Warehousing	30,307	34,865	15.0%	38,436	10.2%	42,524	10.6%	24.7%
Information	9,799	8,785	-10.3%	8,898	1.3%	9,405	5.7%	23.2%
Finance and Insurance	33,640	33,072	-1.7%	32,930	-0.4%	32,552	-1.1%	16.8%
Real Estate and Rental and Leasing	11,021	10,668	-3.2%	11,304	6.0%	11,092	-1.9%	17.3%
Professional, Scientific, and Technical Services	34,880	34,775	-0.3%	35,880	3.2%	35,669	-0.6%	19.8%
Management of Companies and Enterprises	14,202	13,905	-2.1%	14,314	2.9%	14,760	3.1%	0.5%
Administrative and Support and Waste Management and Remediation Services	34,836	32,170	-7.7%	33,345	3.7%	31,944	-4.2%	29.6%
Educational Services	11,431	10,253	-10.3%	10,547	2.9%	10,901	3.4%	3.0%
Health Care and Social Assistance	92,718	88,981	-4.0%	91,043	2.3%	90,656	-0.4%	13.0%
Arts, Entertainment, and Recreation	8,278	6,474	-21.8%	7,004	8.2%	6,792	-3.0%	9.6%
Accommodation and Food Services	47,789	39,764	-16.8%	43,336	9.0%	46,805	8.0%	13.9%
Other Services (except Public Administration)	24,887	22,168	-10.9%	23,586	6.4%	24,414	3.5%	3.2%
Government	107,103	103,652	-3.2%	103,359	-0.3%	102,131	-1.2%	3.5%
Unclassified	31	N/A		N/A		N/A		
	579,824	554,707	-4.3%	572,122	3.1%	580,089	1.4%	

Source: U.S. Bureau of Labor Statistics

Income Tax Refunds Due to Remote Work in 2020

On June 7, 2022, the Ohio Supreme Court announced that it will hear *Schaad v. Alder*. The issues in the *Schaad* case share some of the same questions presented in the *Buckeye Institute v. Kilgore, et. al.* case. The Ohio Supreme Court declined to accept jurisdiction of the appeal of the *Buckeye Institute* case after the Franklin County Court of Appeals affirmed the Franklin County Court of Common Pleas decision granting the City’s Motion to Dismiss. In *Schaad v. Alder*, the Ohio Supreme Court will consider whether taxpayers can claim refunds for municipal income taxes paid during 2020 to their employers’ principal place of work, as opposed to the location of their home office or city of residence. Currently, the outcome of this case only applies to income taxes paid in 2020; the Ohio General Assembly has already taken action to allow employees to seek refunds for the days they worked from home in 2021. The case will likely be heard at the end of 2022 or early 2023.

NOTE 3 – PROPERTY TAXES

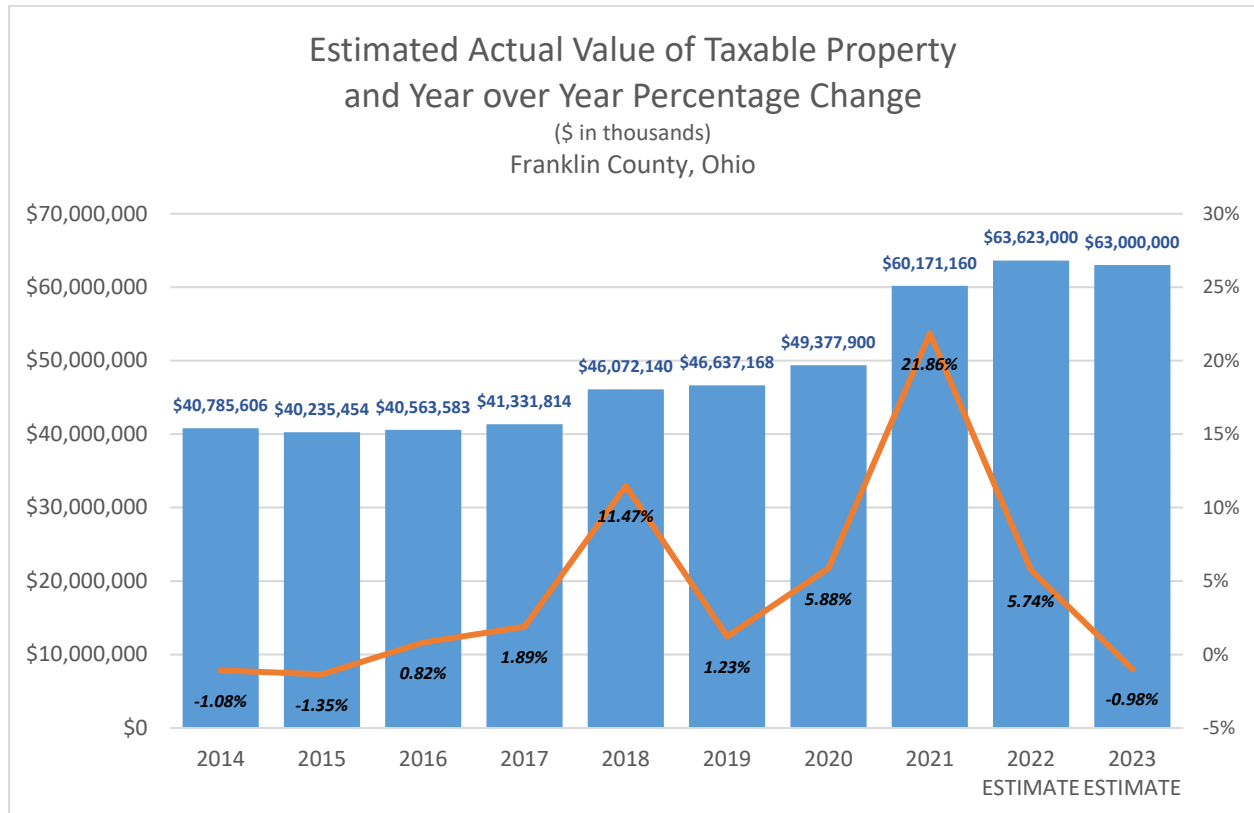
The City’s share of taxes collected in 2023 attributable to real properties is estimated at \$63.0 million, net of an estimated \$2.0 million retained by the counties and the State for costs and fees. Amounts paid directly to the City from the State, known as “rollbacks,” are included herein. Property tax revenues are

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**NOTES TO THE CITY AUDITOR’S STATEMENT OF 2023 ESTIMATED AVAILABLE RESOURCES
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estimated based on trends in assessed valuation of property as determined by the county auditors. Assessed values on real property are established by State law at 35 percent of appraised market value. A revaluation of all property is required to be completed every sixth year, with triennial appraisals occurring every third year. The last sexennial revaluation in Franklin County was completed in 2017; the last triennial occurred in 2020, resulting in a significant increase in revenues in 2021. Ohio law prohibits taxation of property from all taxing authorities within a county in excess of one percent of assessed value without a vote of the people. Under current procedures, the City’s share is .314 percent (3.14 mills) of assessed value. Increases in the property tax rate are restricted only by voter willingness to approve such increases.

Franklin County tax year 2022 assessed values for property tax amounts to be collected in 2023 will be available in December 2022. The graph below shows total property tax revenue and the year-over-year percentage change for a 10 year period.



NOTE 4 – INVESTMENT EARNINGS

The City pools its cash and investments for maximum investing efficiency. Earnings on the pool are allocated to individual funds at the discretion of City Council after meeting certain requirements. Interest earnings in excess of amounts required to be allocated are recorded as revenue in the General Fund. Based on the estimated amount of pooled cash and investments and projected interest rates, it is estimated that \$25.3 million will be posted as revenue to the General Fund in 2023. The 2023 estimate

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for investment earnings is a significant increase over the 2022 revised estimate because of rising interest rates.

NOTE 5 – LICENSES AND PERMIT FEES

It is estimated that various licenses and permits issued by the City's Department of Public Safety will generate approximately \$1.9 million for the General Fund in 2023. Cable permits are estimated to produce \$9 million, while other licenses and permits will add another \$100 thousand for a total of \$11 million in licenses and permits.

NOTE 6 – SHARED REVENUE

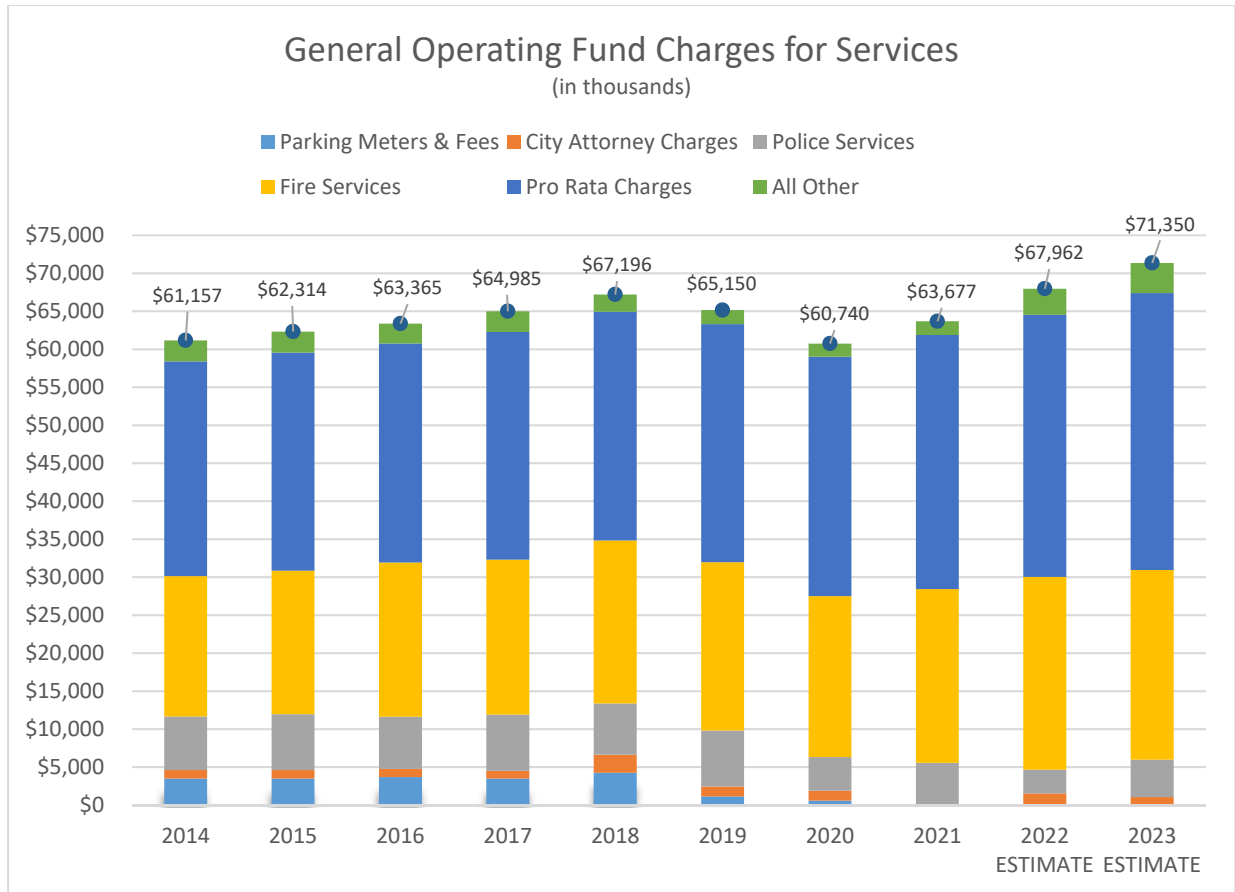
Shared revenue sources are estimated at \$35.8 million for 2023. Shared revenues include portions of the various State taxes which are shared with local governments. It is estimated that these shared taxes will provide \$27.6 million. Additionally, the City receives Casino taxes as an allocation of county share portion and as a host city portion. Total Casino taxes are estimated at \$13 million. The City has entered into various agreements funded with Casino taxes. For 2023, it is estimated that \$8.2 million in Casino taxes will remain in the General Fund.

NOTE 7 – CHARGES FOR SERVICES

Charges for services in 2023 are estimated at \$71.4 million. The most significant revenue sources included in charges for services are for Pro Rata, Division of Fire Emergency Medical Services Billing, and special Police services. Pro Rata (or administrative charges to non-General Operating Fund divisions) represents certain operating costs borne by the General Operating Fund and then partially allocated to other funds of the City. Ordinance 2293-2018 calls for an assessment rate of 4.5% of revenues of the funds assessed, resulting in revenue to the General Operating Fund estimated at \$36.4 million for 2023. Since the revenues from the water, sanitary sewer, and storm sewer enterprise have not been significantly impacted by the COVID-19 pandemic, Pro Rata has remained consistent with prior years. The Fire Services estimate of \$25.0 million includes Fire Emergency Medical Services Billing for fees related to emergency medical transportation services of \$20.0 million for 2023. Special Police services include auto impound fees, policing special community and other events and is estimated to generate revenue of \$4.9 million in 2023.

CITY OF COLUMBUS, OHIO
NOTES TO THE CITY AUDITOR'S STATEMENT OF 2023 ESTIMATED AVAILABLE RESOURCES
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The following graph illustrates charges for services revenue by source over a 10-year period.



NOTE 8 – FINES, FORFEITURES AND PENALTIES

Revenue from fines, forfeitures and penalties consists primarily of court costs. Court costs resulting from operations of the Franklin County Municipal Court should produce approximately \$7.9 million in 2023. Revenue from the Franklin County Municipal Court has not returned to pre-pandemic levels of approximately \$12.5 million per year.

NOTE 9 – MISCELLANEOUS REVENUES

Miscellaneous revenues are estimated at \$5.5 million for 2023. Kilowatt hour (kWh) tax is permitted to be levied on users of electricity provided by the City's Division of Electricity. State statutes provide for the kWh tax to be deposited into the City's General Operating Fund and the City reports this amount as miscellaneous revenue. The kWh tax for 2023 is estimated at \$3.2 million. The remaining \$2.3 million estimated in miscellaneous revenue is for rents, refunds, reimbursements, and other miscellaneous payments.

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NOTE 10 – TRANSFERS IN

Transfers from other funds for 2023 are estimated at \$6.5 million, including: \$4 million representing 25% sharing by the Special Income Tax fund of job incentive programs to be paid from the City's General Operating Fund; and \$2.5 million to be transferred from the Reimagine Safety General Fund subfund [1000-100019]. Although not included in the Total Estimated Available Resources for 2023, there is approximately \$53.827 million in other General Fund subfunds that is available for transfer and use in the General Operating Fund, which includes \$49.669 million in the Basic City Services Fund [Fund 1000; Subfund 100017]. If the \$53.827 million is transferred to the General Operating Fund, the Total Estimated Available Resources for 2023 becomes approximately \$1.198 billion.

NOTE 11 – PRIOR YEAR ENCUMBRANCE CANCELLATIONS

Encumbrances which will be carried forward to 2023, but not used, are estimated at \$5 million. These cancellations will increase unencumbered cash in 2023 to be used for operations. Cancellations are estimated based on previous trends of encumbrance amounts carried forward from year to year, as well as the amounts cancelled each year.

NOTE 12 – ESTIMATED AVAILABLE BEGINNING BALANCE

The estimated available 2023 beginning balance was determined using estimates of year-end 2022 revenues and expenses based on year-to-date actual revenues and expenditures through the third quarter of 2022.

The 2023 beginning cash balance was estimated as follows:

General Operating Fund Estimated Beginning Cash Balance	<u>(in thousands)</u>
Beginning Cash Balance - January 1, 2022	\$ 137,557
Less - Outstanding Encumbrances at December 31, 2021	<u>79,257</u>
Unencumbered Cash Balance - January 1, 2022	\$ 58,300
Add City Auditor's Official Revised Estimate dated June 2022	
Add - City Auditor's Estimated 2022 Receipts	\$ 998,187
Add - City Auditor's Estimated Encumbrance Cancellations	5,000
Add - Transfers In	<u>61,876</u>
Total Amount Available for Appropriations	\$ 1,123,363
Add - Estimate of Revenue in Excess of Official Estimate dated June 2022	2,754
Less - 2022 Projected Operating Expenditures per 3rd Quarter Review	1,005,036
Less - Anticipated 4th Quarter Adjustment to Transfers In	<u>40,000</u>
Projected Available Cash Balance - December 31, 2022	\$ 81,081