OHIO ASSOCIATION OF PUBLIC TREASURERS • OCTOBER 2026

Protect the Reserves

Why preserving year-end fund balances will be harder, and matter more, as wage and operating-cost inflation reprices the budget

74%

Ohio city median available fund balance ratio, FY2024 (Moody's, preliminary)

+3.6%

State and local government compensation costs, 12 months to June 2026 (BLS)

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Preservation is the new accumulation

YESTERDAY

Revenue surprises, federal support, vacancies and strong nominal growth often produced recurring year-end upside.

TODAY

Wage resets, health care, insurance, contracts, fleet, construction and technology costs are repricing the operating base.

TOMORROW

The goal is to slow reserve erosion, preserve flexibility and avoid turning one-time capacity into permanent cost.

A flat fund balance can be a strong outcome when recurring costs are rising faster than recurring revenue.

GOLDEN
2021–2025
Exceptional cushion

SILVER
2026–2028
Protect the plateau

BRONZE
2029–2031
Trade-offs intensify

IRON
If uncorrected
Structural repair

Framing adapted from the OAPT working deck, Preserving Year-End Fund Balances (2026). Illustrative; not every Ohio municipality followed the same path.

Public-sector costs are repricing the operating base

3.4%

Consumer prices (CPI-U), 12 months to Aug. 2026

3.6%

State & local government compensation, 12 months to June 2026

3.4%

State & local wages and salaries, 12 months to June 2026

4.0%

State & local benefit costs, 12 months to June 2026

Where it lands

Wages & benefits: market adjustments become permanent base cost

Public safety: overtime, staffing and equipment can move faster than revenue

Purchased services: contracts reset at new price levels

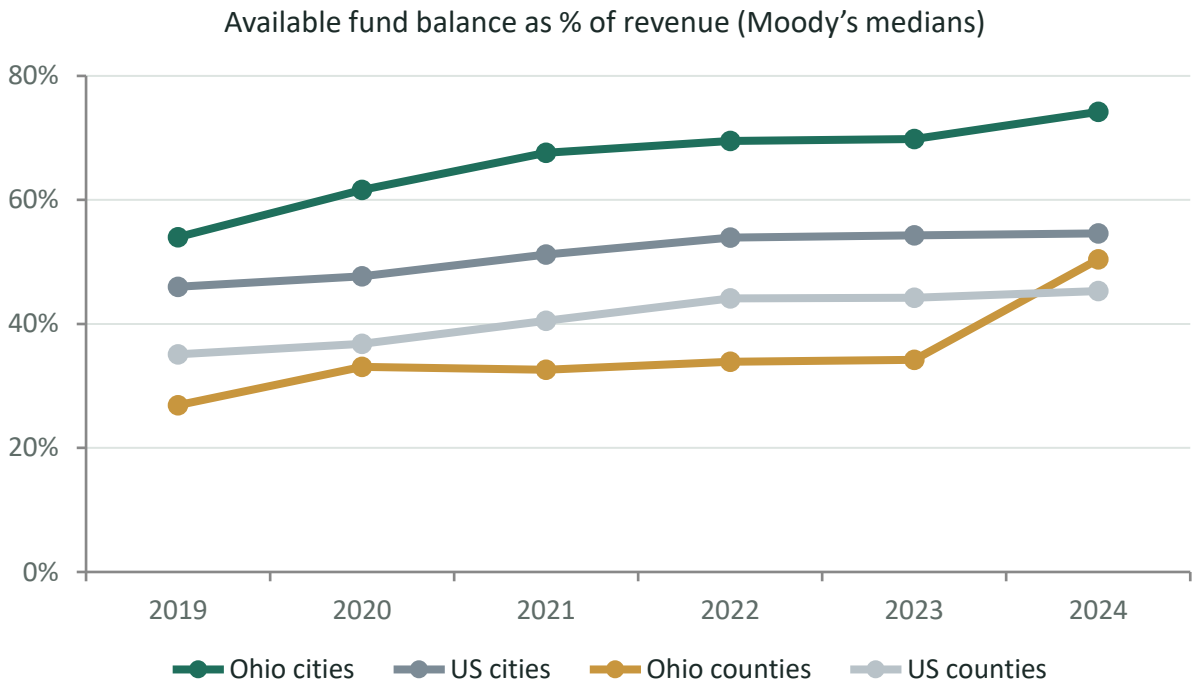
Capital & fleet: replacement cycles cost more and cannot be deferred forever

Revenue sensitivity: income-tax exposure means local conditions matter quickly

Policy uncertainty: state and federal changes can alter aid, mandates or tax flexibility

Sources: U.S. Bureau of Labor Statistics, Employment Cost Index (June 2026) and Consumer Price Index (August 2026); OAPT working deck.

Ohio cities entered this period with unusually strong reserves



74%

Ohio city median, FY2024 vs. 55% for US cities

50%

Ohio county median, FY2024 vs. 45% for US counties

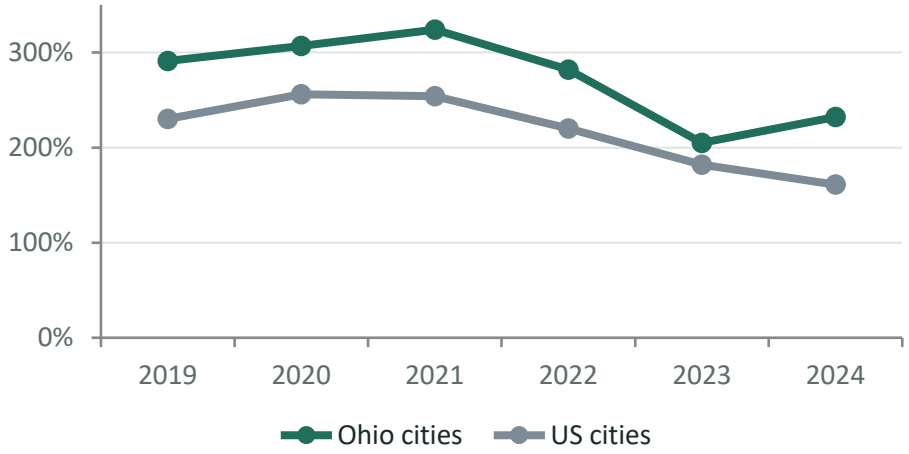
≈ 9 mo.

of revenue held by the median Ohio city (74% × 12 months)

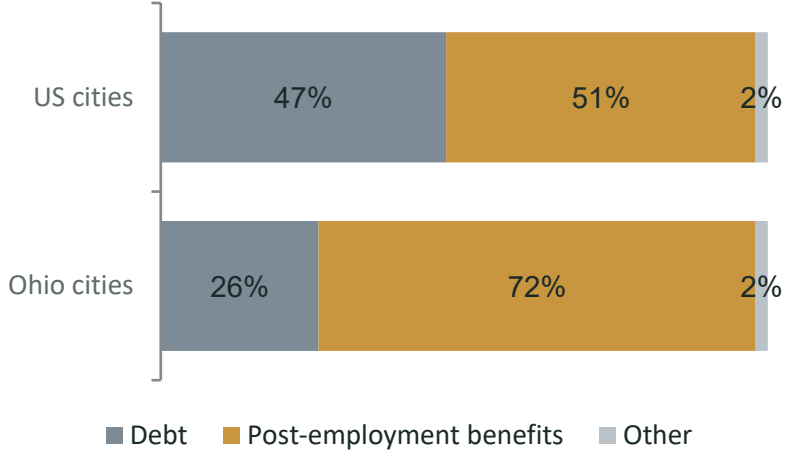
Source: Moody's Ratings, Ohio Credit Landscape: Cities and Counties (Sept. 2025); values read from chart. FY2024 is preliminary (fewer than 50% of rated-entity audits).

But Ohio carries heavier long-term obligations than national peers

Long-term liabilities as % of revenue (cities)



Composition of long-term liabilities, 2023



Why it matters for reserves: adjusted net pension liabilities ran about 155% of revenue for Ohio cities in FY2024 vs. about 50% nationally, and cost-sharing plans amplify swings when discount rates move.

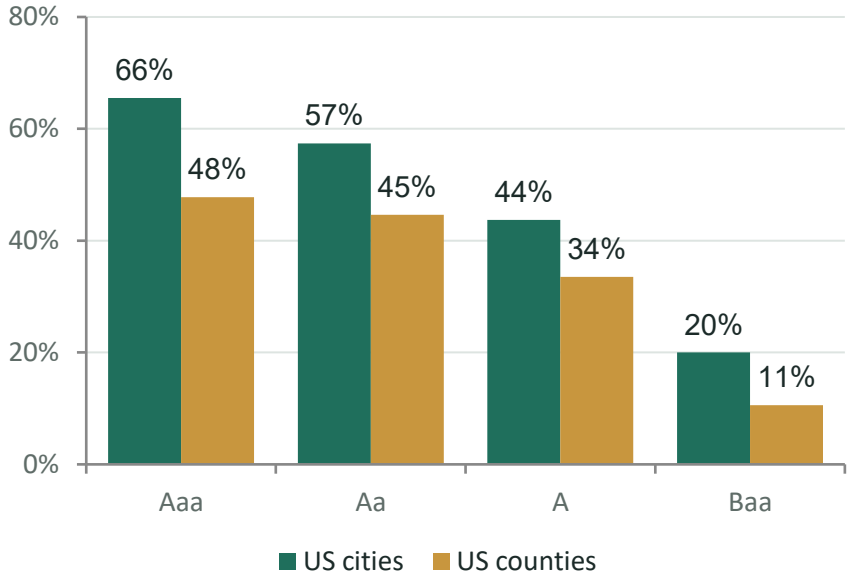
Source: Moody's Ratings, Ohio Credit Landscape (Sept. 2025); values read from charts. FY2024 preliminary.

What credit analysts reward: scorecard bands for reserves and liquidity

Moody's category	Available fund balance	Liquidity
Aaa	> 35%	> 40%
Aa	25% – 35%	30% – 40%
A	15% – 25%	20% – 30%
Baa	5% – 15%	12.5% – 20%
Ba	0% – 5%	5% – 12.5%

Financial performance is 30% of the scorecard: available fund balance 20%, liquidity 10%.

Median available fund balance ratio by rating, FY2024



Source: Moody's Ratings, Cities and Counties – US: Medians (30 April 2026), scorecard bands and medians by rating. Ba and below omitted (small samples).

In Ohio, Aa2 cities typically hold 55–78% of revenue in available reserves

Available fund balance ratio

Rating	< 10K	10–25K	25–50K	50K+
Aaa	80%	69%	72%	67%
Aa1	(23%)	90%	81%	92%
Aa2	64%	78%	55%	71%
Aa3	115%	46%	93%	78%
A1	51%	66%	75%	63%
A2	27%	36%	59%	31%

Liquidity ratio (net unrestricted cash / revenue)

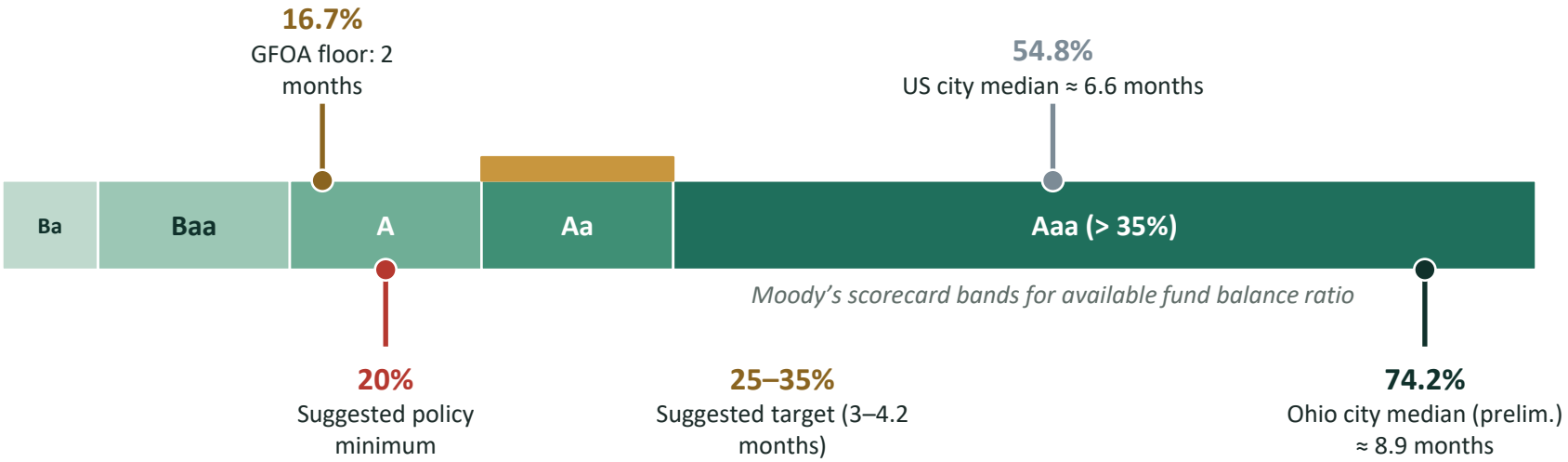
Rating	< 10K	10–25K	25–50K	50K+
Aaa	83%	87%	103%	95%
Aa1	78%	108%	133%	100%
Aa2	83%	102%	80%	115%
Aa3	126%	61%	102%	120%
A1	62%	83%	84%	75%
A2	39%	62%	68%	40%

Column headers show municipal population. Shading – Available fund balance: green ≥ 50%, amber 35–50%, red < 35%. Liquidity: green ≥ 75%, amber 50–75%, red < 50%.

Ohio FY2023 medians; some rating/size cells contain very few entities (and Aa1 under 10K is negative), so treat single cells as directional.

Source: Moody's Ohio Municipality Medians as of FY 2023 (AFB and cash medians model, 16 April 2025).

How much is enough? Two months is the floor



Measurement caution: Moody's ratio blends governmental funds and enterprise net current assets over total revenue. GFOA's floor is General Fund balance over General Fund revenues or expenditures. Benchmark, don't interchange.

Sources: GFOA Fund Balance Guidelines for the General Fund; Moody's Ratings (April 2026 medians; Sept. 2025 Ohio landscape); suggested 20% / 25–35% framework from OAPT policy draft.

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GFOA: treat the minimum as a floor, not a destination

≥ 2 months

≈ 16.7% of regular General Fund operating revenues or expenditures

A minimum for governments of any size. Unique risks (volatile revenue, disaster exposure, state or federal cuts) can justify significantly more.

1 Set a risk-based target

Weigh revenue volatility, one-time exposure, drains from other funds, rating impact and existing commitments.

2 Define legitimate use

Use reserves as a bridge for defined contingencies, not as a source of recurring operating revenue.

3 Replenish deliberately

Plan to restore balances within one to three years of use, using surpluses and nonrecurring revenue.

4 Address balances above target

Adopt a policy for the excess and never use it to fund ongoing recurring expenditures.

Source: GFOA, Fund Balance Guidelines for the General Fund (best practice, board-approved Sept. 30, 2015). Paraphrased.

A policy structure: minimum, target, strategic

MINIMUM

20%

Unrestricted/unassigned General Fund balance should not normally fall below 20% of recurring operating expenditures.

TARGET

25–35%

Managed objective range, well above the GFOA floor. Creates discipline the minimum alone does not.

STRATEGIC

> 35%

Not automatically “surplus.” Test against the five-year forecast, capital needs, debt, and revenue concentration before use.

Structural balance protection

Fund balance may bridge recurring costs only in a downturn or extraordinary event, and only with a plan showing how revenues and expenditures return to structural balance.

Keep Ohio law distinct

A policy fund balance is not an ORC §5705.13 reserve balance account. Confirm current statutory limits with your solicitor and how the account is reported under GASB 54.

Illustrative framework from the OAPT draft policy; adapt to local risk. Sources: GFOA Fund Balance Guidelines; ORC §5705.13; Ohio Auditor of State (GASB 54 guidance).

Build an early-warning dashboard before the audit confirms the trend

Indicator	Green	Red flag
Recurring operating margin	≥ 0%	< 0% for two years
Unrestricted / available reserves	At or above policy	Downward trend
Personnel growth vs. revenue growth	≤ revenue growth	> revenue growth
Vacancy-savings dependence	Low / normalized	Required to balance
One-time revenue in operations	None / isolated	Recurring practice
Five-year forecast reserve floor	Above target	Crosses target

Add one more line: "How many months until we cross policy if the current gap persists?"

Source: OAPT working deck, early-warning dashboard.

The playbook: protect recurring margin first

1 Separate

Recurring vs. one-time revenues and expenditures in every budget discussion.

2 Forecast

Use a rolling five-year forecast with wage, benefit and contract escalators.

3 Gate

Require a funding source for every permanent position, program or pay change.

4 Sequence

Use vacancy savings, procurement resets and service redesign before broad cuts.

5 Fund capital

Match recurring capital replacement with recurring resources; keep cash for true one-time needs.

6 Reprice

Review fees, charges and internal allocations on a scheduled basis.

Rule of thumb: never solve a permanent problem with a temporary dollar.

Autopilot for surplus: a year-end waterfall

1 Replenish	2 Target	3 Liabilities	4 Capital	5 Strategic
Restore any reserve draw first	Fund the policy floor, then the target	Address known one-time obligations	Pay-go capital and fleet replacement	One-time transformation investments

Policy principle: recurring operating expansion comes from recurring revenue, not from the waterfall. GFOA endorses year-end surpluses as a replenishment source and cautions against using above-policy balances for ongoing recurring costs.

Sources: OAPT working deck (surplus waterfall); GFOA Fund Balance Guidelines for the General Fund.

Thin reserves risk an escalating loss of flexibility

FISCAL CAUTION

Early warning · local control retained

- Auditor requests written proposals to correct identified practices or conditions
- May inspect, assist and conduct a performance audit
- No commission; no added preapproval of spending, debt or levies
- Failure to act can lead to Fiscal Watch

FISCAL WATCH

Formal recovery · Auditor oversight

- Mayor submits a financial recovery plan to the Auditor within 90 days
- Plan needs corrective actions, dates, a five-year forecast and shared-services review
- Auditor of State reviews and approves; still no commission
- Failure to submit or act can lead to Fiscal Emergency

FISCAL EMERGENCY

State supervision · binding plan

- Financial Planning & Supervision Commission; Auditor is financial supervisor
- Commission-approved plan governs spending
- Reviews tax budgets, levy ordinances, appropriations; approves debt amount and purpose
- Monthly spending levels; 85% limit if required information is withheld

Caution warns. Watch requires a recovery plan. Emergency adds a state commission and binding financial controls.

Source: Ohio Revised Code Chapter 118 (§§118.022–118.025, 118.04–118.07); Ohio Auditor of State fiscal distress guidance. Educational summary, not legal advice.

Who controls what? Chapter 118 at a glance

Decision area	Caution	Watch	Emergency
Appropriations	Local control	Local control; recovery plan may require cuts	Must conform to the Commission-approved plan
Hiring / staffing	Local control	Local control; plan may constrain staffing	No blanket ban; costs must fit the plan and spending levels
Contracts	Local control	Local control; plan may constrain commitments	Cannot conflict with the approved plan
Debt issuance	Ordinary law applies	Ordinary law; market scrutiny rises	Commission approves amount and purpose
Tax levies	Ordinary process	Ordinary process; plan may rely on revenue actions	Commission reviews levy ordinances for plan consistency

Legal nuance: *Chapter 118 imposes no categorical hiring freeze at any level; in Emergency, staffing and contracts are constrained through the approved plan and required approvals.*

Source: Ohio Revised Code Chapter 118 (§§118.06–118.13). Educational summary, not legal advice.

Revenue is performing, but the risk mix is shifting

Tailwinds

- State income-tax receipts $10.4B in FY2025, up 10%
- June collections 21% above estimates
- Non-auto sales tax $661M, up nearly 6%
- Median rated Ohio city full valuation up ~40% (2019–24)

Headwinds

- Low levy and bond approvals, then property-tax cut proposals (many vetoed, may return)
- Triennial updates lifted values 25–50% in one year, inviting political response
- Cybersecurity mandated in 2025 without added funding
- Federal funding and trade-policy exposure; benefit costs +4.0%

Moody's analysts say they will focus on: contingency plans for a downside scenario given income- and sales-tax reliance; federal and trade exposure; debt and financial policies; cyber risk; environmental and social risk.

Source: Moody's Ratings, Ohio Credit Landscape: Cities and Counties (Sept. 2025); BLS Employment Cost Index (June 2026).

Five decisions for the 2027 budget cycle

1. Adopt or refresh a risk-based fund balance target above the GFOA floor where warranted.
2. Show recurring operating margin separately from the legal/budgetary “balanced budget.”
3. Model wages, benefits and major contracts over five years before approving permanent changes.
4. Create a year-end surplus waterfall and a one-to-three-year reserve replenishment rule.
5. Report reserve trajectory to Council quarterly, with a trigger for corrective action.

Reserves are not excess cash. They are decision time.

Case example: why unrestricted reserves matter

Cash flow

Provides adequate month-to-month cash flow and eliminates the need for costly cash-flow borrowing.

Emergencies

Provides funds for emergency situations such as a natural disaster or an ice/snow storm.

Revenue shocks

Provides funds for unforeseen expenditures or revenue shortfalls that occur during a fiscal year.

Bridge financing

Allows bond-funded capital projects to begin before borrowed funds are on hand.

Offsets weakness

Helps mitigate or offset other financial weaknesses elsewhere in the credit profile.

Lender confidence

Signals financial strength and flexibility to lenders, helping the City obtain competitive financing.

Source: MAS Financial Advisory Servicess, Formalization of Financial Policies – draft working papers (Sept. 2026). Illustrative example, not an OAPT recommendation.

Case example: why formalize the policy?

Many localities run on an informal reserves policy. Advisors commonly recommend a formal policy, adopted by Council, for four reasons:

1. **Credit positive**

   Formal policies are viewed as more of a credit positive by rating agencies and investors alike.

2. **Sets a clear goal**

   Officially adopting the policy sets a fiscal-health target that can guide capital planning and operational budgeting.

3. **Industry best practice**

   Formalization is viewed as an industry best practice and is recommended by GFOA.

4. **Formalizes existing practice**

   Many cities already monitor an informal reserves policy — adopting one formalizes, rather than replaces, that history.

"Governments should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes." — GFOA

Source: MAS Financial Advisory Services LLC Formalization of Financial Policies – draft working papers (Sept. 2026); GFOA. Illustrative example, not an OAPT recommendation.

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Case example: one city's recommended reserves policy

GENERAL FUND UNRESTRICTED

25%

Shall not be less than 25% of budgeted General Fund expenditures and operating transfers.

BUDGET STABILIZATION

5%

Shall not be less than 5% of budgeted General Fund expenditures and transfers, or the ORC limit (5% of prior-year revenues).

AGGREGATE MINIMUM

30%

Together, the two policies create an aggregate 30% reserve minimum for the City.

Sequencing: if reserves must be drawn down, the Budget Stabilization Fund is used first. Neither reserve may be used to balance the operating budget at adoption, and a plan to restore reserves to policy is required within two fiscal years of a shortfall.

Source: MAS Financial Advisory Services, Formalization of Financial Policies – draft working papers (Sept. 2026); ORC §5705.13.
Illustrative example

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