

# Community Workshop:

*Proposed Sale of the Cincinnati Southern Railway and  
Engagement on City Budget Priorities*

October 26, 2023  
November 1, 2023

# Introductions

- **Sheryl M.M. Long, City Manager**
- **William “Billy” Weber, Assistant City Manager**
- **City Staff**
  
- **Purpose of Meeting:**
  - Provide information about the City’s budget
  - Provide information about the proposed sale of the Cincinnati Southern Railway (CSR)
  - Consult you and receive your feedback on budget priorities

# Agenda

- **Overview**
- **Presentation**
  - **Budget Basics**
  - **Cincinnati Southern Railway (CSR) Frequently Asked Questions (FAQs)**
- **Budget Engagement Activities**

# Overview

## WHAT WE WILL DO TODAY:

- INFORMATIONAL PRESENTATION
- BUDGET ENGAGEMENT ACTIVITIES
- PROVIDE FEEDBACK ON BUDGET PRIORITIES
- CONTINUE TO COLLECT FEEDBACK ON FAQs ABOUT THE SALE

## WHAT WE WON'T DO TODAY:

- DEBATE
- A LIVE Q&A
- DISCUSS THE MERITS OF THE SALE

# Budget Basics

# Budget Basics: Operating and Capital

## Operating Budget

The day-to-day expenses of operating City government.

Includes:

- Salaries and benefits
- Contractors for services
- Grants to Non-profits
- Materials & Supplies
- Rent

## Capital Budget

Expenses for long-term investments in physical items.

Includes:

- Streets
- City Facilities (Health, Recreation, Parks, Public Safety, etc.)
- Utility Infrastructure
- Vehicles and equipment
- Housing & Economic Development

**City Council appropriates both annually.**

# Budget Basics: General vs. Restricted Funds

- **General Fund and General Capital** – Very flexible and generally can be used for any public purpose.
- **Restricted Funds – Operating and Capital**
  - Eligible uses restricted to support a specific purpose—such as the water system, sewer system, or special parks or recreation activities.
  - Frequently involve user fees (water charges, sewer charges, etc.)
  - Revenues generated by the activity stay within the fund to support that activity.



# Budget Basics: General vs. Restricted

## FY 24 All Funds Budget \$1.59 Billion

**Operating Budget - \$1.28 Billion (≈ 80%)**

I. General Fund Operating Budget

- **\$504 Million**
- **Primarily personnel costs**

II. Restricted Funds Operating Budget

- **\$779 Million**
- **Primarily personnel costs**

**Capital Budget - \$309.9 Million (≈ 20%)**

I. General Capital Budget

- **\$76.4 Million in City Resources**
- **Primarily spent on maintenance of existing infrastructure**

II. Restricted Capital Budget

- **\$196.5 Million**
- **Primarily spent on sewer and water infrastructure.**

\$37  
Million  
in  
Grants



# General Capital Maintenance Needs and Existing Resources

## Existing General Capital Resources:

- City's General Capital Budget is typically about \$60 million per year and is primarily funded from income tax capital revenue, property tax supported debt revenue, and the existing lease proceeds from the CSR.

Program	Resources:
General Capital Resources for the Approved FY 2024 Budget total \$76.5 million, which is a 39.8% (or \$50.6 million) decrease from the Approved FY 2023 Budget Update amount of \$127.1 million.	
Property Tax Supported Debt (36.4%) \$27.8 M	Southern Railway Note Proceeds (34.1%) \$26.1 M
	Income Tax Capital Revenue (18.3%) \$14.0 M
	Southern Railway Tax Credit Note Proceeds (7.8%) \$6.0 M

Not shown: Reprogramming, 3.0%, \$2,300,000. Miscellaneous Other Revenue, 0.3%, \$250,000.

## General Capital Needs:

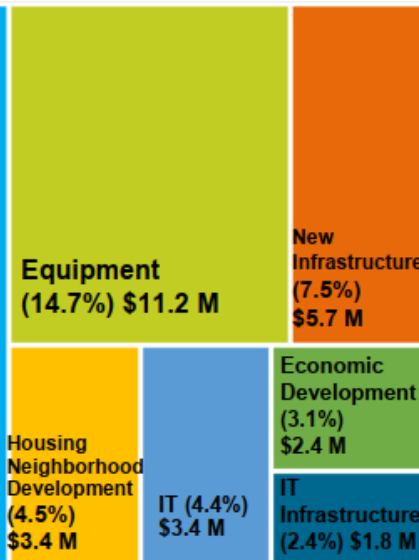
- Current estimate is \$500 million in deferred capital maintenance for existing infrastructure.
- City has consistently been unable to meet the 100-lane mile per year goal for street rehabilitation with existing resources.
- A 2021 survey of residents had 72.1% of respondents identify the greatest need by the City was maintenance of city streets, sidewalks, and infrastructure.

# Existing General Capital Uses

The City has historically committed the majority of General Capital funds to addressing existing infrastructure—but the available resources have proved inadequate to keep up with the demands.

**Program Expenses:** The General Capital Budget is utilized by the City to cover expenditures such as transportation infrastructure, City buildings, fleet vehicles, recreation facilities, and parks. Many aspects of City assets, ranging from fire stations to park areas, have aged beyond their useful life. Although facility replacement is often economically infeasible, proper care and maintenance remains a City priority.

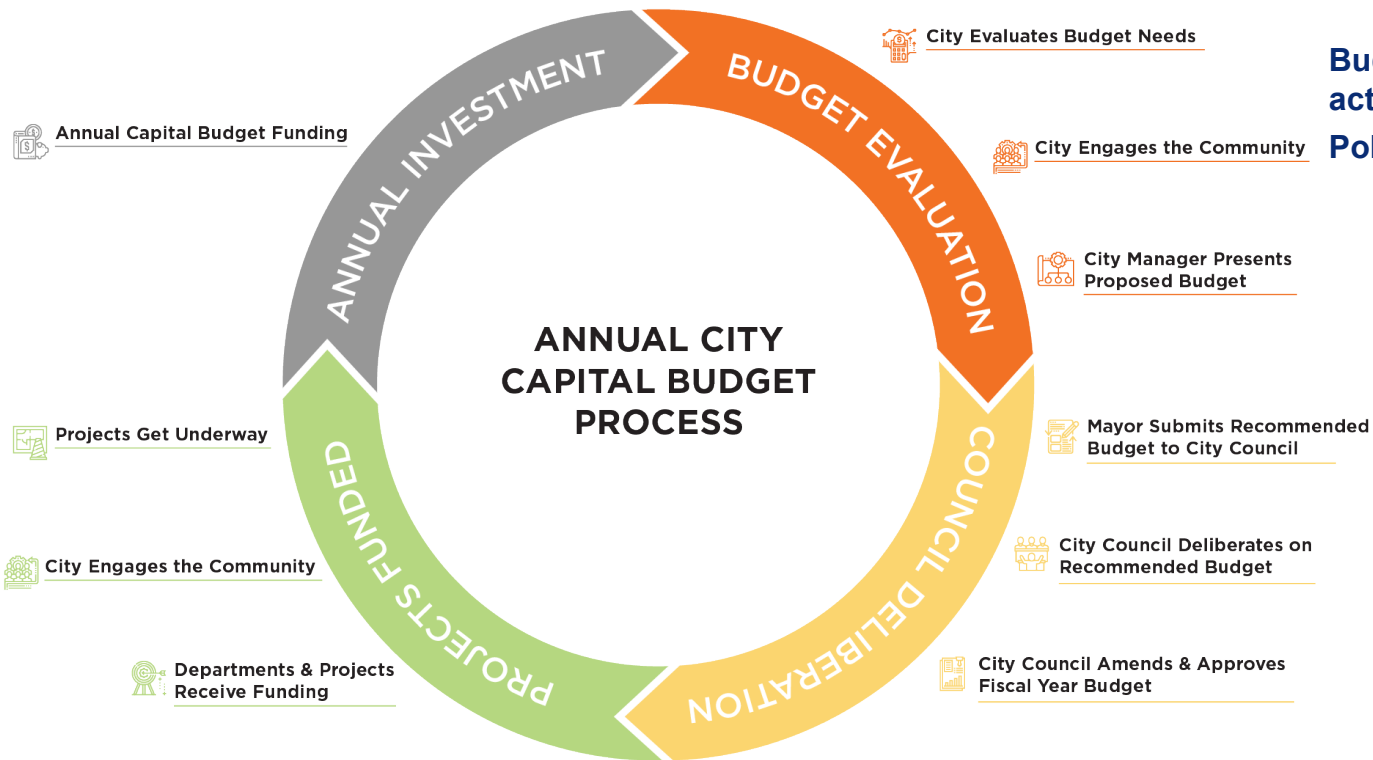
**Infrastructure (Smale Commission) (63.4%)  
\$48.5 M**



Not shown: Environment, 0.1%, \$51,000.

Note: Software and Hardware (IT) is denoted as "IT"

# Budget Basics: Annual Budget Process



**Budget engagement activities and Budget Policy Motion**

# Cincinnati Southern Railway (CSR)

## Frequently Asked Questions (FAQs)

# Cincinnati Southern Railway - FAQs

## Why does the City own a railway?

- The railway was originally developed as an economic development project for the City following the Civil War—connecting Cincinnati and its economy to the south.
- An Ohio law enabling the creation of the Cincinnati Southern Railway was enacted on May 4, 1869. Workmen spiked the last rail in place on December 10, 1879.
- The Cincinnati, New Orleans & Texas Pacific Railway's (CNO&TP) began leasing the CSR in 1881 and still leases it today. The CNO&TP is a subsidiary of Norfolk and Southern.

# Cincinnati Southern Railway - FAQs

## Who runs the CSR?

- Since its creation, the CSR has been owned and operated by an appointed Board of Trustees.
- The Board is a volunteer board of Cincinnati residents appointed by Mayor with the approval of Council.
- The Board is required to have appointees that are a mix of political parties to encourage apolitical decision making.
- Board members are appointed for five-year terms.

# Cincinnati Southern Railway - FAQs

## Who are the Board of Trustees?

Paul Muething, President



Charles Luken, Vice-President



Paul Sylvester, Treasurer



Amy Murray



Mark Mallory



Will they receive compensation from the sale? No.

# Cincinnati Southern Railway - FAQs

## What led to the proposal to sell the railway? What are the proposed terms?

- The existing lease term expires at the end of 2026. Norfolk Southern has an option to extend their lease for 25 additional years at a to-be-determined rent amount, which they exercised.
- The Board of Trustees and Norfolk Southern spent several years negotiating on the rent amount for the 25-year extension but could not agree.
- Norfolk Southern instead offered to buy the CSR originally for \$865 million dollars, which the Board of Trustees rejected.
- After additional negotiation, Norfolk Southern raised their purchase offer to \$1.6 billion dollars, which will generate substantially more value than what they offered as a rent payment.
- The Board of Trustees agreed on this offer and are now proposing the sale to the voters on those terms.



# Cincinnati Southern Railway - FAQs

## What will happen if voters do not approve the sale?

- Overall, it is hard to say since there are many different possible outcomes.
- It is possible that state law is changed, new sale terms are negotiated and agreed between Norfolk Southern and the Board, and the sale is again proposed to the voters under different terms.
- Alternatively, it is possible that the Board of Trustees will continue negotiating with Norfolk Southern on the rent amount for the lease extension.
  - If the parties cannot agree, the parties must engage in arbitration over the rent amount.
  - If the parties agree on the rent amount determined in the arbitration, then that is the new rent for the 25-year extension starting in 2027.
  - If the parties do not agree on the outcome of arbitration, each party has specific rights dictated by the lease. The outcome of this scenario is very uncertain.

# Cincinnati Southern Railway - FAQs

## What happens to the \$1.6 billion if the sale is approved?

- Under state law, the \$1.6 billion goes into a trust that will be managed by the Board of Trustees, who will invest the funds on behalf of the City.
- Those investments are intended to provide returns, which will then be used to make payments to the City.
- The intent of the trust structure is to keep the \$1.6 billion in sale proceeds protected, so the City can benefit in perpetuity from the investment returns—balancing the current needs of the City but also looking out for future needs.

# Cincinnati Southern Railway - FAQs

## What can the funds be used for?

State law dictates funds received by the City from the infrastructure trust can only be spent “on the rehabilitation, modernization, or replacement of existing infrastructure improvements.”

**Existing Infrastructure** means public facilities owned by the City, including:

- Streets
- Bridges
- Municipal Buildings
- Police and Fire Stations
- Parks & Greenspace
- Recreation Facilities
- Parking Facilities

# Cincinnati Southern Railway - FAQs

## What can the funds NOT be used for?

The funds cannot be used to pay:

- **Debt** – To avoid current spending that takes away from future allocations.
- Costs for **New Infrastructure** – To avoid rapid expansion of infrastructure that will require more maintenance in the future.
- **Operating Expenses** of the City – To avoid increasing long-term operating expenses.

# Cincinnati Southern Railway - FAQs

## Who decides how much the City gets annually? How much money will the City get annually?

- The Board of Trustees will determine how much to pay annually to the City out of the trust.
- That determination will be largely based on investment returns, but it is also controlled by state law through an established minimum (starting at \$26.5 million per year) and a required halt to payments if the value of the trust drops by more than 25% in a single year.
- The City receives approximately \$26.5 million per year from the current CSR lease. The City projects that the sale will likely more than double the annual amount currently received, to approximately \$56.0 million.

# Cincinnati Southern Railway - FAQs

## How does the City Administration recommend using funding from the sale if approved?

City Administration proposed the “Cincy On Track” plan. This plan is a list of real projects from City Departments of their operational needs that we have been unable to fund with current resources. It lays out \$250 million in capital needs over ten years among five major program categories:



Parks



Recreation



Streets & Sidewalks (Transportation Infrastructure)



Public Services



Health

# City

## If t

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	<b>Infrastructure (Smale Commission)</b> (63.4%) <b>\$48.5 M</b>	<b>Economic Development</b> (3.1%) \$2.4 M
	<b>Housing Neighborhood Development</b> (4.5%) \$3.4 M	<b>IT Infrastructure</b> (2.4%) \$1.8 M

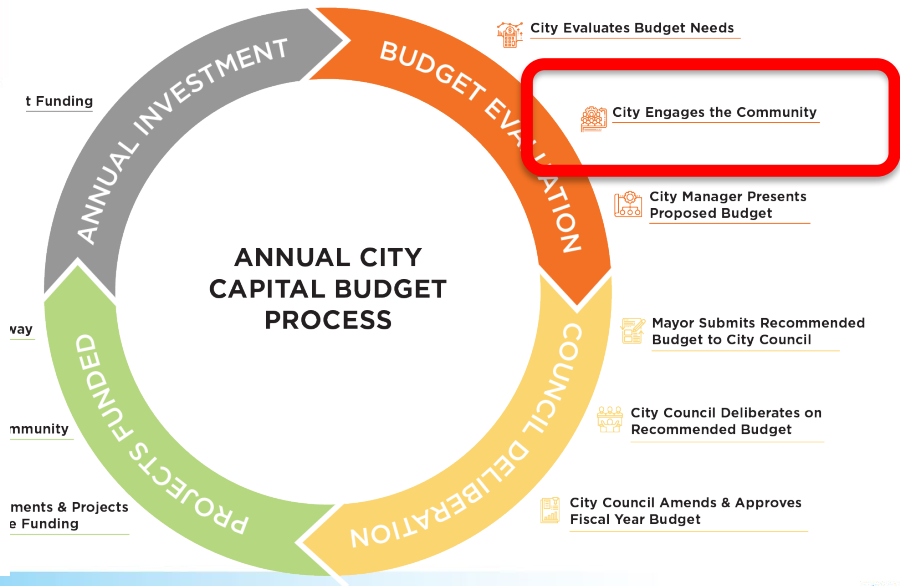
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# - FAQs

## Where does the money that the City receives is spent?

How will they decide through the regular annual budget process, just like the current CSR lease proceeds.



# Activity Breakout Sessions




# Budget Priorities Exercise

**Purpose:** This exercise is intended to solicit feedback on your priorities for City investment—giving you an opportunity to tell us what is most important to you.

## Directions:

- There are two phases to this exercise.
- The first phase you will tell us what your top three priorities are among the categories of Parks, Recreation, Streets and Sidewalks, Public Services, and Health. You have been given colored dots at your seat to do this.
- The second phase allows you to rank services from most to least important in each of the five categories. Our staff at each station have available colored dots to allow you to do this.
- City staff is available at each station to help with assistance and questions.

# Budget Priorities Exercise – Phase 1 Example

CONSULT 

## YOUR PRIORITIES

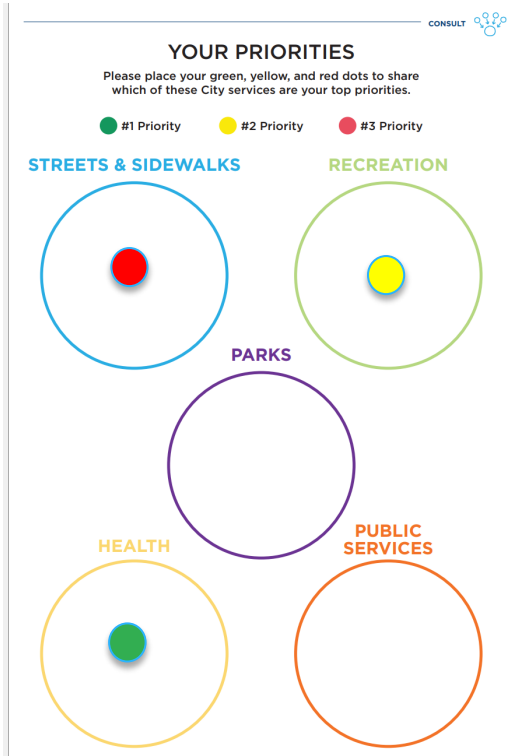
Please place your green, yellow, and red dots to share which of these City services are your top priorities.

● #1 Priority    ● #2 Priority    ● #3 Priority

**STREETS & SIDEWALKS**      **RECREATION**

**PARKS**

**HEALTH**      **PUBLIC SERVICES**



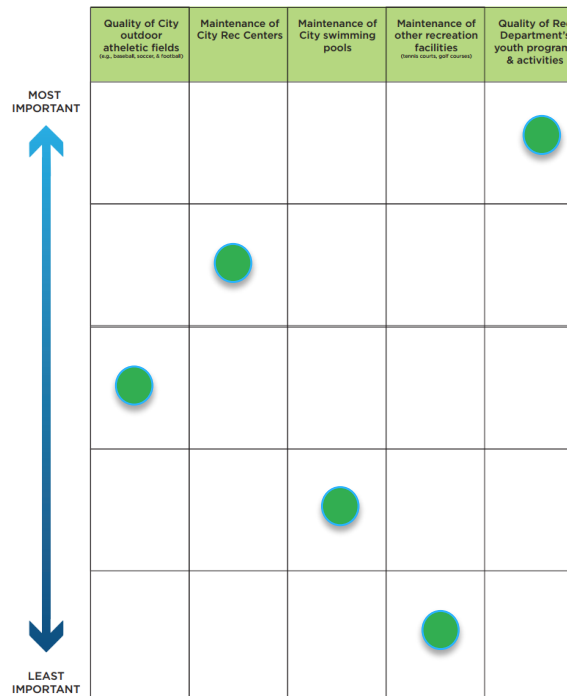
# Budget Priorities Exercise

## Phase 2 Example

### YOUR PRIORITIES

## RECREATION

Please rank the services the City provides from highest to lowest impact on your daily life.



# Capital Budget Exercise

## Purpose:

- Your job is to work with your fellow community members to discuss, deliberate, and present a balanced existing infrastructure capital budget.

## Background & Process:

- The City currently utilizes approximately \$40 million in General Capital Resources to address existing infrastructure needs each year. This \$40 million consists of \$26 million from CSR Lease Payments and an additional \$14 million from a combination of sources related to property and income taxes.

# Capital Budget Exercise

## Instructions:

- Each group member should introduce themselves and share their neighborhood.
- Each group should select a group leader and a treasurer.
- Take a few minutes to read through the existing infrastructure worksheets taking note of which items should be included in the existing infrastructure capital budget.
- Writing in specific project locations on each game piece is encouraged but not required.
- Multiple quantities and locations can be written in on a single game piece.
- Discuss the items with the group and collectively develop an existing infrastructure capital budget balanced at \$40 million. Disagreement is okay. Compromise is often necessary.
- Each game piece included in the budget should be placed in the corresponding budget.
- The game pieces that are not included in the \$40 million existing infrastructure budget should be placed in the deferred capital box.

# Capital Budget Exercise

## Important Assumptions:

- The group can choose to adjust the cost estimate amount listed for each item, but it would adjust the scope of work as a consequence. Since some projects are not flexible, these may be an all or nothing decision.
- Desired project scopes that are not represented by a capital budget game piece should be written in on the Community Budget Request cards.
- For assistance, please ask City Staff for additional information.

# Conclusion

# Thank You!