



Budget, Finance & Economic Development

March 20, 2018

Summary and Motions

Chair Stinnett called the meeting to order at 1:03 p.m. All committee members were in attendance.

I. Approval of February 27, 2018 Committee Summary

A motion was made by CM Mossotti to approve the February 27, 2018 Finance & Economic Development Committee Agenda, seconded by CM F. Brown. The motion passed without dissent.

II. Financials Update – February 2018

Bill O'Mara, Commissioner of Finance, presented the FY18 February financials. He reviewed comparative unemployment rates which he said was good news. He said they tried to update this for information they got last week. The U.S. stayed steady at 4.1 and there is discussion on a national level as to whether the unemployment rate will fall below 4% by this summer. In Kentucky, we went from 4.4 in December to 4.1 in January. MSA went from 2.9 in December to 3.2. The Lexington area went from 2.8 to 3.0. He said we typically have our lowest unemployment rate during the holiday season. O'Mara continued with the 3 month moving average that continues to show a good rate of unemployment. He reviewed a comparison of economic indicators for 2017/2018 and said he previously reviewed the unemployment rate going from 2.8 in December to 3.0 in January. He said the number of permits has gone up to 927 from 739 for the same time as last year. He said business licenses have gone down slightly from last year. Home sales are also down from last year. Foreclosures in January were down from January last year. He said right now this shows a good environment.

Rusty Cook, Director of Revenue, presented the February Top 4 revenue sources including Employee Withholding, Net Profit, Insurance, and Franchise Fees. He compared actual budget to adopted budget for February. He said year to date, we are at \$2.6M below budget. The majority of that is in Employee Withholding. He said part of the issue is we are having softness, but last year we had a \$2M one time hit in the first two months of the calendar year. When we do the budget we use averages so this drove the budget up some. Net Profit is showing some growth of \$403,000 above budget and Insurance is 100,000 below budget. At the end of the calendar year, we were \$300,000 below budget and we have picked up some of the Insurance deficit. Franchise Fees is \$340,000 below budget which has improved from \$600,000 under budget in the second quarter. He said comparing year to date, the Top 4 is showing growth of \$4.7M ahead of prior year and all four categories are up.

Melissa Lueker, Director of Budgeting, reviewed the remaining revenues and cash flow variances for February. She said we are \$1M below budget for services which is due to EMS collections and the rest of the revenues are right at budget. For the first eight months of the year, we are down \$3.8M in revenue. On the expense side we are at about \$78,000 negative variance for personnel which was \$900,000 last month. She said we are still over budget in our health insurance subsidy and will be until the end of the year. We are at a positive of \$6M on the operating side. For Insurance Expense we are right at 1%. She said Capital is hard to predict because it is typically a one-time item so there is no history. She said we are experiencing a \$3.4M deficit which is better than we thought. Lueker continued her presentation and said up over prior year; revenues are up \$4.4M and 2%.

CM Moloney commented on unemployment and asked where the average comes from because he has seen reports where areas in Lexington, unemployment can be 15-20%. He asked how this number can be so low. O'Mara said this number comes from the U.S. Government. He said they do a national report and from there, it is broken down by state, the MSA, and then by county. He said once a year, it is done by census district which is what CM Moloney is referring to. O'Mara said about a year ago he did a site map that showed the districts over the course of a four or five year period. You could see pockets at 20% going down to 15%, others at 0 and others at 1 or 2%. He said he thinks this is updated sometime in the summer based on the year ending in December. We can check to see when that information is available and distribute it to Council.

CM Mossotti commented that the employment rate coincides with the occupational tax and she asked what percentage of our budget is from payroll tax. O'Mara said he would have to get that information. CM Mossotti commented on the variance in payroll withholding and asked why we have that variance. Cook said this is because we have seen some softness this year and our budget is elevated because of how we do it. He said we use a 2 or 3 year average from previous years. He expects it to go down as we continue through the fiscal year.

CM F. Brown asked about total revenue variance of -1% when it was projected to be 4% increase in revenue. He asked if they were going to look at this because that projection seems high and he asked how it will be addressed for the current fiscal year. O'Mara said this is the time when we have make projections and we are going to be \$2M below budget by year-end. CM F. Brown asked if these numbers for the last 8 months will hold low. Lueker said some of it will hold, but she is not sure what level. She said this is the first year the divisions have entered their budgets on a monthly basis and it will take a couple of years for them to get used to the monthly budgeting. She said she does anticipate some savings. CM F. Brown asked if there was a directive from CAO's office as far as a freeze and Lueker said not as of right now. CM F. Brown commented on Partner Agencies and asked if some of those expenses were late getting out. Lueker it is the timing of the payments getting out involving several different agencies. CM F. Brown said that should level out since it is a given number. Lueker said that is correct.

CM Moloney commented on the numbers being so high in operating and he asked if we have cut back on hiring. Lueker said the CAO goes over every request. CM Moloney asked if we are saving on maintenance costs. CAO Hamilton said there has been no hold on operating expenses. She said it is not a matter of money, but a matter of getting to the job. She said in reference to personnel, they have been able to fill almost every position. She said you will see this in the Links meetings; there are positions that have been filled, they just lagged on some of them which gave some slack in the funding. She said the staff will tell you that they are very adequately staffed.

No further comment or action was taken on this item.

February 2018 MTD Actual Compared to Adopted Budget

<u>Revenue Category</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	23,912,701	26,703,809	(2,791,108)	-10.5%
OLT - Net Profit	385,563	888,476	(502,913)	-56.6%
Insurance	5,593,325	4,170,119	1,423,206	34.1%
Franchise Fees	2,746,402	2,982,123	(235,721)	-7.9%
TOTALS	32,637,991	34,744,527	(2,106,536)	-6.1%

February 2018 YTD Actual Compared to Adopted Budget

<u>Revenue Category</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	132,012,268	134,593,753	(2,581,485)	-1.9%
OLT - Net Profit	15,465,702	15,062,345	403,357	2.7%
Insurance	23,564,443	23,665,338	(100,895)	-0.4%
Franchise Fees	16,933,673	17,276,028	(342,355)	-2.0%
TOTALS	187,976,086	190,597,464	(2,621,378)	-1.4%

2018 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget)

<i>For the 8 months ended February 28, 2018</i>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
Revenue				
Payroll Withholding	132,012,268	134,593,753	(2,581,485)	-1.9%
Net Profit	15,465,702	15,062,345	403,358	2.7%
Insurance	23,564,443	23,665,338	(100,895)	-0.4%
Franchise Fees	16,933,673	17,276,028	(342,356)	-2.0%
Other Licenses & Permits	3,863,414	3,855,007	8,406	0.2%
Property Tax Accounts	22,297,794	22,306,223	(8,429)	0.0%
Services	13,170,322	14,260,813	(1,090,491)	-7.6%
Fines and Forfeitures	130,795	159,477	(28,682)	-18.0%
Intergovernmental Revenue	218,013	248,714	(30,702)	-12.3%
Property Sales	183,656	133,333	50,323	37.7%
Investment Income	180,881	344,567	(163,686)	-47.5%
Other Income	2,085,886	1,995,122	90,763	4.5%
Total Revenues	\$230,106,845	\$233,900,722	(\$3,793,877)	-1.6%

2018 Fiscal Year- Cash Flow Variance Expense (Actual to Budget)

<i>For the 8 months ended February 28, 2018</i>				
	Actuals	Budget	Variance	% Var
Expense				
Personnel	142,235,661	142,157,802	(77,859)	-0.1%
Operating	30,269,719	36,268,058	5,998,340	16.5%
Insurance Expense	9,924,715	9,845,572	(79,143)	-0.8%
Debt Service	30,850,601	31,268,769	418,168	1.3%
Partner Agencies	13,653,813	14,812,101	1,158,288	7.8%
Capital	1,448,683	1,719,837	271,154	15.8%
Total Expenses	\$228,383,192	\$236,072,139	\$7,688,948	3.3%
Transfers	5,135,046	5,442,121	307,075	-1.9%
Change in Fund Balance	(\$3,411,393)	(\$7,613,539)	\$4,202,146	

Comparison of Economic Indicators 2016/2017

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	2016	4.2%	4.3%	4.1%	3.3%	3.6%	3.9%	3.8%	3.3%	3.4%	3.3%	2.9%	3.1%
Unemployment Rate	2017	4.0%	3.9%	3.9%	3.6%	3.6%	4.4%	4.5%	3.9%	3.2%	3.2%	3.1%	2.8%
	2018	NA	N/A										
Quarterly Fayette County	2016	-	-	188,039	-	-	192,063	-	-	194,300	-	-	196,500
Employment	2017	-	-	191,760	-	-	193,700	-	-	N/A	-	-	N/A
	2018	-	-	N/A	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	2016	937	1,206	1,510	1,631	1,453	2,071	1,042	744	860	737	742	721
	2017	876	739	924	899	1,357	995	1,207	1,283	1,054	1,053	994	965
	2018	914	927										
Fayette County New Business	2016	203	248	445	564	658	299	173	260	219	231	211	153
Business Licenses	2017	201	253	418	468	621	328	206	281	205	247	213	140
	2018	219	250										
Home Sales (MSA)	2016	640	773	950	1,139	1,313	1,419	1,230	1,338	1,155	1,050	1,012	1,081
	2017	776	794	1,060	1,067	1,411	1,428	1,353	1,311	1,084	1,115	951	1,000
	2018	728	700										
Fayette County	2016	22	36	25	27	31	21	26	40	14	31	31	16
Foreclosures	2017	27	17	16	19	16	17	20	22	19	16	26	16
	2018	21	-										

N/A indicates information not available.

BLS Release Dates for Fayette Co. Quarterly Employment - 6 months after quarter end

FY18 Code Enforcement Nuisance Abatement/Lien Collections

Month	Administrative Collection		Miscellaneous		Penalty & Interest		Total Collections	
	Fees		FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
	FY 2018	FY 2017						
July	825	225	603	253	6,936	15,545	8,364	16,023
August	1,125	1,125	1,711	802	35,892	10,163	38,728	12,090
September	800	545	1,260	2,153	55,540	71,112	57,600	73,810
October	375	1,275	536	2,132	50,654	39,069	51,565	42,476
November	525	975	1,664	962	40,359	27,457	42,548	29,394
December	600	300	572	1,456	31,407	48,596	32,579	50,352
January	424	525	1,832	2,230	56,185	43,903	58,441	46,658
February	225	675	1,170	1,118	61,030	22,898	62,425	24,691
Totals	4,899	5,645	9,348	11,106	338,002	278,743	352,249	295,494

III. Residential Tax Options Update

CM J. Brown gave a brief background of the item and said it was created to keep families from being displaced. The intent of this is to create a program which will address relief for property tax increases in areas where redevelopment has taken place. He said property values are rising and families can't afford the increase in property taxes. It is a complicated issue and is challenging as a city to address this. He said we are looking to create a system for loaning money to property owners for these taxes that would not have to be paid until the property is transferred. According to the PVA, there are not a lot of families that are affected by this currently. He said he sees this growing in the future and this program will be more relevant at that time and maybe we should look at this holistically. He proposes to create a way to address these issues and find out how we as a city change policies or create programs to address what is taking place as we concentrate on infill and redevelopment in communities throughout the city. We can look at how we address affordable housing and also look to see if there are partnerships to help us educate home owners, residents, and neighbors to be part of the change taking place in the community. He said he plans to follow up with this committee on next steps they plan to take to look at this holistically and come back with policy recommendations.

CM Farmer said this is very complicated to try to determine who needs the help and in what capacity. He said the idea of looking at this holistically will work and he asked what the timeframe is. CM J. Brown said in a couple of weeks we will come back. He said we are looking at a task force in order to focus on this and see what we can do to alleviate the challenges. CM Farmer said he agrees that there are applications in more than one neighborhood and he said 2 weeks does not seem like much time. CM J Brown said the task force will have to work on this to come up with recommendations which will take some time. He said he does not anticipate coming forward with budget recommendations this year.

CM Moloney asked if we looked at other cities in Kentucky who are doing this. CM J Brown said we have

not looked at cities in Kentucky because he feels like we are on the forefront of this. He said they looked at the LOOP program in Philadelphia which would be a good model for us. He said this issue is happening across the country and it is happening in Lexington, but at a slower pace and we can get in front of it to protect our families and communities. CM Moloney said he asks because there are state laws that come into effect. He said if another city in KY has done this, we can duplicate. He said if there were other cities, he is interested in knowing if there were problems they ran into. CM J. Brown said one of the things they looked into was state policy and our authority as a local municipality.

No further comment or action was taken on this item.

IV (a). Economic Development Update – Commerce Lexington

Bob Quick, President and CEO of Commerce Lexington, provided an update on Economic Development efforts. He said the year was a success for their team and they are off to a busy start this year with significant project activity and multiple site visits. Over the last few years, they have seen smaller projects with higher wages and more capital investment and last year was a good example of that. New jobs created by clients were down slightly from previous years. He said when you add in indirect and induced jobs from these projects, it totals about 1,500 new jobs. He said the average wage was \$62,540 which is an increase of \$12,000 per year from 2016. Capital investment is up significantly; it was over \$1.4 million dollars in 2017. He said there are 3 projects from 2017 which include EnerBlu, fooji, and GE Lighting.

CM J. Brown asked where the new headquarters for EnerBlu will be located in Lexington. Quick said they have not said. CM J. Brown asked how many of the 110 jobs are in Lexington. Hannah Crumrine, Project Manager with Commerce Lexington, said all 110 jobs will be located in Lexington.

CM Lamb asked what the average wage for GE Lighting employees was. Quick said he is not sure what the average was or how they could account for that. CM Lamb said we are seeing an increase in wage which is good and she hopes that will over-accent the loss.

CM Plomin asked about EnerBlu and asked if they looked at the LexMark property. Crumrine said that was one of the properties on the list. CM Plomin asked if it was still on the list and Crumrine said she is not sure where they are in the process. CM Plomin asked if there was a time table. Crumrine said they want to be operational by April, but they are still working through everything. CM Plomin commented on the GE jobs and the career fair and she asked how many of the 120 were picked up. Quick said they do not have the number and it is a hard number to track.

VM Kay commented on the average yearly wage and the median yearly wage and he asked where the numbers came from. Crumrine said if the company applied for local incentives, the Lexington Jobs Fund Program or KBI application through the state, many of our numbers from those applications of state incentives. If it is a company that did not receive state or local incentives, the numbers were self-reported by the company. VM Kay asked if it was her understanding that the average could be mean, median, or mode. He said is highly unlikely that they would be the same number. Crumrine said the ones that have the same number, typically means it is the same position they are hiring. She said it might be five software engineers and once they hire those positions they might be different wages based on who they hire. She said these are projection numbers they give us. VM Kay said unless you are hiring the five people at exactly the same wage, the mean and the median are not going to be the same thing. He said it would be helpful for him to know what they are calculating and how they are

calculating it. Crumrine said they can ask their clients on the specific people, but these numbers are typically provided before the positions are filled so sometimes they are the same number.

CM Moloney asked about the report last month about averages saying that he did not believe there was much difference between mean and median. Wes Holbrook, Administrative Officer for Department of Finance, said in Jobs Fund Program, there might be a slight difference in the mean and median average. He said for our program these numbers are well above what we consider the baseline wage. CM Moloney said when you do these numbers you want to have an average that is normal for everyone.

Betsy Dexter presented the Academies of Lexington Initiative that the Business and Education Network has been working on over the last couple of years. She said 3 of 6 high schools have transformed the way they do education into this career academy model. Bryan Station was the first one that started in 2016 with freshman academy and went all-academy the following year. Frederick Douglas opened with all of their students in an academy and Tates Creek did freshman academy this year and will go all-academy next year. She explained a freshman academy is when the kids transition from middle school to high school, it will put them all together and they get to explore different careers all year. She said the number of academies is based on the number of students at each school. She said this is all based on workforce data provided by Kentucky Center for Education and Workforce Statistics. In tracking the data, they discovered that the academy model is working and kids are staying in school. She reviewed the in-school and out-of-school suspensions and the number of hours has dropped significantly. By shifting to this model, the percentage of failures in Math and English grades has gone down. Lastly, she said Bryan Station reported 759 hours have been donated by the business community to work with students in exploring different career paths.

CM Mossotti said this is huge for schools and prospective residents looking at schools. She asked if there was any marketing done for this. Dexter said they are working with a marketing firm to make sure they hit every audience and there is a web site that adopts different messages for each audience which shows all of the pathways available. She said they are on social media and they have done a video which was shown at the annual Commerce Lexington dinner. CM Mossotti said this is great and correlates with the ranking of the school.

VM Kay said this is very encouraging. He asked who was involved in making this happen and how did the various partners work together on this. Dexter said they created a strategic plan and they brought representatives from KCTCS and University of Kentucky together to brainstorm to see how these dual credits would transfer to these colleges. She said they also work with representatives from the school district and they received a grant from UK for professional development so the teachers are trained to fit this model. She said they have a great partnership with postsecondary partners and they are constantly working together to look at all of the tactics.

CM Moloney said this is a good model. He asked where the funding was coming from. Dexter said part of it comes from the Business and Education Network's capital campaign, part of it comes from LFUCG, and the school district gets grant money from UK. He asked if the school is funding this program. Dexter said the school is probably 4:1 in terms of how much they invested in develop of staff and the school. Kim Lyon, Strategic Partnership Manager with Fayette County Public Schools, said the school district has put monetary resources into several areas related to this. She said each of the high schools that have this model have hired academy coaches who implement the model. She said they also receive Perkins funds which are career and technical education funds that school districts receive and most of those

have been used for professional development and purchase of equipment and supplies for the programs.

CM F. Brown asked about funding and if this is part of the funding from Lexington. He asked what percentage of the Commerce Lexington budget is being taken out for this program. Dexter said about \$77,000 comes out to fund this program. CM F. Brown asked if he could have a copy of the allocation. Dexter said she will send this. CM F. Brown asked how many students were at Tates Creek High School and she said 1,800. He said how many of the 1,800 will they try to reach and Dexter said they will reach all of them and they will all be in an academy. CM F. Brown said they will all be in an academy then. Dexter said yes, this year they have explored the different academies and next year they will select their top 3 choices. CM F. Brown said so each student has to go into one of the programs. Dexter said yes, it is like a magnet program and they want all kids to participate. CM F. Brown asked if the EBCE program is still going on. Dexter said yes and they are meeting about that soon. CM F. Brown said this is a big program and he asked if \$77,000 will cover the costs. Dexter said they receive other funding and they are figuring that out as they continue to grow. He asked how LFUCG can help promote this. Dexter said she would love to work with the summer youth jobs program and we will be going to an informational breakfast to learn more about that. She said they appreciate any support LFUCG can provide.

CM J. Brown said there is a lot of excitement in Bryan Station community and with the students. He asked if there has been success with attracting specific businesses partners. She said yes, Baptist Health has been great. She said they want to attract businesses in a variety of sectors. CM J. Brown asked if there is anything planned this summer besides the summer youth jobs program. Dexter said she is open to it, but nothing is in place yet.

CM Lamb said she remembers having the discussion about this early on and thinking this was an area that could use much improvement. She said she went to Locust Trace AgriScience Center and it was unique how they talked about different careers in sciences. She asked Dexter if they are working with Locust Trace. Dexter said they are working with them as well as other Tech Centers such Eastside and Southside to make sure they are not duplicating efforts. CM Lamb asked if there is a plan to concentrate on middle school kids. Dexter said they are piloting a middle school right now that will feed into Frederick Douglas.

CM Plomin commented on structure and asked if there was a head of each academy. Dexter described it is having little schools inside the school. She said each academy has a principal and a counselor. She said the structure is the same with the same number of admin, but they are placed differently. CM Plomin asked if they will be putting academies into other high schools. Dexter said the Site Based Decision Making Council for each school will make the decision. CM Plomin asked about private schools and Dexter said they have not worked with private schools yet; this is just for public schools right now. She said they would be happy to work with anyone though.

CM Evans said she is very impressed with the change in absentees. She asked Dexter how they interact with teachers and how is that blending in with the teachers' curriculum. She asked if there was one particular day that they visit. Dexter said they teach in teams and the academy coach is the point person and they get together to brain storm and determine which businesses they can call to help with certain issues. CM Evans asked Dexter if her presence is less in the classroom. Dexter said yes it is, but they also have access to businesses and they recruit and connect people with the school.

CM Mossotti asked if there have been any roadblocks since each school is governed by Site Based

Decision Making Councils. Dexter said no; the biggest thing is educating and understanding. She said change is hard. They all agree that education needs to keep up with the world around us. She said the conversation was not hard; but everyone had to be on board and understand. The barriers were in the beginning before we saw success stories.

No further comment or action was taken on this item.

IV (b). Economic Development Update - Bluegrass Angel Investors

CM Stinnett provided a background to this item saying that he and CM Bledsoe were able to see this presentation last fall. He said this entity wants to invest in other businesses. He said it is a great opportunity for kids coming out of college who have a great idea, but do not have the start-up capital. He introduced Chris Young, Chair of Bluegrass Angels, who presented the item describing it as an angel investment club that meets monthly. He said angel investing deals with small companies and entrepreneurs. He said they invest in companies in exchange for equity in the company. He said Angel capital fills the gap in start-up funding. Bluegrass Angels provides early-stage equity capital to start-up and/or expanding companies. He said they promote and enhance entrepreneurship in the Kentucky business community. He said it helps create economic growth and it provides members with an attractive financial return. He reviewed a typical angel deal and went over the process. He reviewed the regional angel groups and Venture Companies. He reviewed funding syndication and total funding. He said the Bluegrass Angel group was founded in 2004 and currently has 50 members. He said Venture Fund I raised \$2M in 2006 and funded 12 companies and in 2010, Venture Fund II raised \$3.8M and funded 22 companies. Lastly, he reviewed examples of companies from Fund I and Fund II and discussed the Kentucky Investment Fund Act (KIFA).

CM Bledsoe said we have a variety of people doing economic development for the city and there a lot of pieces. She said talking together and working together is what makes this happen.

CM Mossotti asked how to get this out to the public who does not know about this and asked what the marketing plan is. Young said they look at it from angles – membership and investors. He said from the companies they look at, there are local ICC offices, universities, other angel groups, and individual investors. He said it takes a certain type of investor to want to bear the risk. He said they have a web site, they are on social media, and they do some public relations. CM Mossotti asked if there has been trouble finding investors. He said no, not really; it is like raising money for anything else. She is interested in the pitch to investors as far as rate of return. Young said it is skewed by the big successes. CM Mossotti asked what the financial viability for an investor would be. Young said it is a federal regulation which says you would need \$1M net worth, absent your home and \$200,000 individual income/ \$400,000 married income per year. He said it is self-reported so he does not really know. He said those that self-report that they are accredited can listen to pitches and decide if they want to invest.

VM Kay asked to speculate the standard line about Kentucky or the Bluegrass Region not having enough venture capital compared to other start-up cities. He asked where we would fall on that spectrum. Young said there is likely too much on the coast and not enough in the center of the country. He said specific to Kentucky, there is enough capital at the formation stage. He said when the company needs the \$5-10M to take the next step and grow substantially; we do not have the funds for that. He said we will have to go outside the state because Kentucky does not have the kind of start-up that a place like Silicon Valley does.

CM Bledsoe commented on the pitch and compared it to a “Shark Tank” idea. She said this would be something we can do with high school programs.

CM Stinnett asked about due diligence in terms of Lexington’s economy. He asked what numbers they look at how they score Lexington’s economy when looking to invest. Young said they don’t from an economy standpoint. He said they are investing in people, ideas, and the ability to execute. He said Lexington is a huge advantage to recruiting. Lexington is an attractive place to relocate with a low cost of living, schools are good, and there are a lot of good things about it. He said unemployment is harder to judge. He said we are losing graduates to other cities. CM Stinnett said sometimes we focus too much on the numbers that we forget how important the quality of life is and that is what attracts people to this city.

No further comment or action was taken on this item.

III. Items Referred to Committee

No further comment or action was taken on this item.

A motion by CM Bledsoe to adjourn, seconded by VM Kay, the motion passed without dissent.

The meeting was adjourned at 2:45 p.m.

K.T. 3.21.18