



## **Budget, Finance & Economic Development Committee**

October 30, 2018

### **Summary and Motions**

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Chair Stinnett called the meeting to order at 1:04 p.m. Committee members Bledsoe, Kay, Moloney, J. Brown, Lamb, Farmer, Evans, F. Brown and Mossotti were in attendance. Council Member Smith was also in attendance as a nonvoting member.

#### **I. Approval of September 25, 2018, Committee Summary**

A motion was made by CM Mossotti to approve the September 25, 2018 Budget, Finance & Economic Development Committee Summary, seconded by CM Farmer. The motion passed without dissent.

#### **II. Financials Update – September 2018**

Bill O'Mara, Commissioner of Finance, presented the financial update with data for the fiscal year up to September 30. He reported the comparative unemployment rates for Lexington at 3.2, Lexington MSA at 3.3, Kentucky at 4.4 and the U.S. at 3.9, noting that the U.S. drops to 3.7 in September. In July the rates were 3.8, 3.9, 4.3 and 3.9, respectively. O'Mara reviewed the economic indicators comparing this time last year to this year, highlighting the number of Fayette County permits issued is down slightly, the number of business licenses is almost the same, home sales are up slightly and the number of foreclosures are up. Rusty Cook, Director of Revenue, reviewed variances of the top four revenue sources comparing actuals versus budget. He said the total variance of \$348,391 is below budget due to a combination factors under withholding, net profit, insurance and financial fees. He noted that net profit improved since last month.

Melissa Lueker, Director of Budgeting, highlighted variances in the city's revenue sources and explained that the \$546,000 in 'other financing sources' is at budget because it was originally under the family care center and transferred, which won't change. She said that we are down in revenue overall by \$717,588 but a lot of that is under the top four revenue sources. She reported that the personnel expense is doing well with a low variance and highlighted the partner agency and capital expense variances. She concluded that the city is \$4M less negative than what was budgeted for. CM Mossotti asked what area of personnel we were over budget in and Lueker said overtime, across all divisions. CM Stinnett asked about the breakdown of operating by department and Lueker said she could provide that information.

CM Lamb asked how many new positions were created this fiscal year and Lueker estimated about 30 but she said she would confirm. CM Lamb asked if the difference in debt service between FY18 and FY19 was due to the \$30M bond for the Lexington Convention Center (LCC) and Lueker explained that is was not due that bond and that much of the debt service variance is based on when payments are due and paid. CM Stinnett pointed out that some additional principle and interest payments for debt service hit this year and said that the LCC bond won't hit until next year.

No further comment or action was taken on this item.

**September 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 | 16,347,419        | 15,483,764        | 863,655         | 5.6%         |
| OLT - Net Profit          | 4,904,482         | 4,634,412         | 270,070         | 5.8%         |
| Insurance                 | 10,491            | 3,905             | 6,586           | 168.7%       |
| Franchise Fees            | 1,776,154         | 1,929,552         | (153,398)       | -7.9%        |
| <b>TOTALS</b>             | <b>23,038,546</b> | <b>22,051,633</b> | <b>986,913</b>  | <b>4.5%</b>  |

**September 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 | 50,703,471        | 50,555,637        | 147,834          | 0.3%         |
| OLT - Net Profit          | 6,540,214         | 6,788,194         | (247,980)        | -3.7%        |
| Insurance                 | 8,162,240         | 8,112,373         | 49,867           | 0.6%         |
| Franchise Fees            | 5,954,940         | 6,253,052         | (298,112)        | -4.8%        |
| <b>TOTALS</b>             | <b>71,360,865</b> | <b>71,709,256</b> | <b>(348,391)</b> | <b>-0.5%</b> |

**2019 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget):**

| <i>For the three months ended September 30, 2018</i> |                     |                     |                    |              |
|------------------------------------------------------|---------------------|---------------------|--------------------|--------------|
|                                                      | <b>Actuals</b>      | <b>Budget</b>       | <b>Variance</b>    | <b>% Var</b> |
| <b>Revenue</b>                                       |                     |                     |                    |              |
| Payroll Withholding                                  | 50,703,471          | 50,555,637          | 147,834            | 0.3%         |
| Net Profit                                           | 6,540,214           | 6,788,194           | (247,980)          | -3.7%        |
| Insurance                                            | 8,162,240           | 8,112,373           | 49,867             | 0.6%         |
| Franchise Fees                                       | 5,954,940           | 6,253,052           | (298,112)          | -4.8%        |
| Other Licenses & Permits                             | 701,311             | 878,175             | (176,864)          | -20.1%       |
| Property Tax Accounts                                | 440,968             | 344,891             | 96,077             | 27.9%        |
| Services                                             | 5,603,723           | 5,853,329           | (249,606)          | -4.3%        |
| Fines and Forfeitures                                | 60,094              | 59,750              | 344                | 0.6%         |
| Intergovernmental Revenue                            | 17,983              | 41,750              | (23,767)           | -56.9%       |
| Property Sales                                       | 64,270              | 62,500              | 1,770              | 2.8%         |
| Investment Income                                    | 198,898             | 117,251             | 81,647             | 69.6%        |
| Other Financing Sources                              | 546,000             | 546,000             | -                  | -            |
| Other Income                                         | 629,269             | 728,067             | (98,798)           | -13.6%       |
| <b>Total Revenues</b>                                | <b>\$79,623,382</b> | <b>\$80,340,970</b> | <b>(\$717,588)</b> | <b>-0.9%</b> |

**2019 Fiscal Year – Cash Flow Variance Expense (Actual to Budget):**

| <i>For the three months ended September 30, 2018</i> |                       |                       |                    |              |  |
|------------------------------------------------------|-----------------------|-----------------------|--------------------|--------------|--|
|                                                      | Actuals               | Budget                | Variance           | % Var        |  |
| <b>Expense</b>                                       |                       |                       |                    |              |  |
| Personnel                                            | 49,267,712            | 50,534,850            | 1,267,138          | 2.5%         |  |
| Operating                                            | 11,473,755            | 14,878,467            | 3,404,712          | 22.9%        |  |
| Insurance Expense                                    | 936,696               | 1,018,728             | 82,032             | 8.1%         |  |
| Debt Service                                         | 24,478,632            | 24,820,081            | 341,448            | 1.4%         |  |
| Partner Agencies                                     | 4,788,625             | 5,285,204             | 496,579            | 9.4%         |  |
| Capital                                              | 62,117                | 550,551               | 488,435            | 88.7%        |  |
| <b>Total Expenses</b>                                | <b>\$91,007,537</b>   | <b>\$97,087,881</b>   | <b>\$6,080,344</b> | <b>6.3%</b>  |  |
| <b>Transfers</b>                                     | <b>1,270,689</b>      | <b>(6,969)</b>        | <b>(1,277,658)</b> | <b>91.0%</b> |  |
| <b>Change in Fund Balance</b>                        | <b>(\$12,654,844)</b> | <b>(\$16,739,942)</b> | <b>\$4,085,099</b> |              |  |

**Comparison of Economic Indicators 2017/2018:**

| 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 | 3.0% | 3.5%  | 3.4%    | 3.0%  | 3.2%  | 4.0%    | 3.8%  | 3.2%  | N/A     |       |       |         |
| Quarterly Fayette County      | 2016 | -    | -     | 188,039 | -     | -     | 192,063 | -     | -     | 194,300 | -     | -     | 196,500 |
| Employment                    | 2017 | -    | -     | 191,760 | -     | -     | 193,695 | -     | -     | 195,800 | -     | -     | 199,800 |
|                               | 2018 | -    | -     | 191,400 | -     | -     | 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   | 979     | 993   | 1,547 | 1,432   | 1,260 | 1,187 | 999     |       |       |         |
| 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   | 379     | 751   | 535   | 286     | 166   | 264   | 209     |       |       |         |
| 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   | 1,042   | 1,085 | 1,281 | 1,380   | 1,294 | 1,339 | N/A     |       |       |         |
| 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   | 0     | 22      | 21    | 21    | 22      | 16    | 25    | 28      |       |       |         |

N/A indicates information not available.

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

**FY19 Code Enforcement Nuisance Abatement/Lien Collections:**

| Month         | Administrative Collection |              | Miscellaneous |              | Penalty & Interest |               | Total Collections |                |
|---------------|---------------------------|--------------|---------------|--------------|--------------------|---------------|-------------------|----------------|
|               | Fees                      |              |               |              |                    |               |                   |                |
|               | FY 2019                   | FY 2018      | FY 2019       | FY 2018      | FY 2019            | FY 2018       | FY 2019           | FY 2018        |
| July          | 675                       | 825          | 1,430         | 603          | 15,407             | 6,936         | 17,512            | 8,364          |
| August        | 75                        | 1,125        | 2,068         | 1,711        | 61,150             | 35,892        | 63,293            | 38,728         |
| September     | 225                       | 800          | 4,083         | 1,260        | 31,372             | 55,540        | 35,680            | 57,600         |
| <b>Totals</b> | <b>750</b>                | <b>1,950</b> | <b>7,581</b>  | <b>3,574</b> | <b>107,929</b>     | <b>98,368</b> | <b>116,485</b>    | <b>104,692</b> |

### **III. FY2018 Fund Balance**

O'Mara presented the item by first reviewing how bond rating agencies measure local governments and Moody's scorecard, highlighting that 30 percent of the city's financial health is evaluated by its finances and that fund balance is considered when determining the rating. He talked about the history of the total fund balance by dollars and percent of revenue and pointed out the minimum fund balance to maintain Moody's Aa rating. He pointed out a drop in overall fund balance in 2017, largely because of the \$22M financial settlement. He reviewed the history of the economic contingency fund by dollars and percent of revenue, noting that while the dollar amount has increased, the percent of revenue has started to decrease.

He said FY18 revenues exceeded expenses by \$5.32M. He explained that the general fund balance is a collection of many funds such as capital projects, jobs fund, affordable housing fund, etc. He pointed out the one-time reconciliation of \$1.3M for the exaction program. He explained that the city spent down several different funds in FY18 and that the \$5.3M fund balance shows a total impact to the general fund of an increase of \$370,000 over 2017. It was clarified that the \$370,000 was actual funds, not budgeted. O'Mara reviewed the administration's recommendations for FY18 fund balance. He explained the history of the 27<sup>th</sup> payroll and the recommendation to move \$1,842,300 from the 27<sup>th</sup> payroll to the economic contingency fund. He said the administration recommends maintaining \$4M for the health insurance reserve and increasing the budget stabilization reserve to \$11.4M. He reminded the council that the approved FY19 budget has expenses exceeding revenues by \$1.8M and mentioned the impact of the CERS pension, as well as other pressures that will affect the budget in the next few years. O'Mara concluded by ultimately recommending to keep the entire fund balance going into next year.

CM F. Brown confirmed that O'Mara is recommending maintaining the total fund balance at \$60M to \$65M in relation to Moody's minimum 15 percent of revenue standard. O'Mara said that if revenue goes up, the fund balance should go up at the same ratio. He said that the Comprehensive Annual Fiscal Report is not complete but that it identifies \$64,372,077 as the total fund balance. CM F. Brown noted how restrictive the economic contingency fund is. O'Mara mentioned the recent ordinance that amended how the economic contingency fund can be used and the goal set by the council to maintain the fund at 10 percent of revenue.

CM Moloney pointed out the need to prepare for the next few years. CM Stinnett mentioned that the council will need to rescind the current resolution regarding 27<sup>th</sup> payroll if the recommendations are accepted as presented.

CM Bledsoe confirmed the budget stabilization reserve is flexible and can be used for a variety of things. O'Mara highlighted the graph that reflects the administration's proposal to add \$1.8M to the economic contingency fund, which grows the percent of revenue closer to the 10 percent goal. CM Bledsoe pointed out the remaining unassigned \$500,000 and O'Mara confirmed they recommend to leave it unassigned. He noted that by spending down the capital projects fund balance, as well as another \$1.8M of fund balance, the overall fund balance could lower to \$60M when the city is reporting FY19, next year. CM Bledsoe said the budget stabilization reserve is very important for reasons like increasing maintenance needs of the Government Center and the pension.

A motion was made by CM Farmer to approve the fund balance recommendations on page 35 of the packet, which moves \$1,842,300 into the economic contingency fund and \$1.4M into the budget stabilization reserve. Discussion of the motion included the following comments. CM Lamb asked if the

proposed increase of 0.33 percent of revenue affects the city's bond rating. O'Mara explained there are two measurement perspectives; one is whether management is sticking to its plan, which for the City of Lexington is to move towards 10 percent and these recommendations do that; second, is the measurement of total liquidity versus where the funds are assigned. CM Stinnett said an additional \$1.8M would be needed to reach the 10 percent goal.

CM F. Brown questioned if the economic contingency fund ordinance should be amended to include that 27th payroll as an allowable expense. O'Mara noted that it might not need to be addressed at all because the city now has an economic contingency fund.

VM Kay noted the difference between the city's internal goal to maintain 10 percent of revenue in the economic contingency fund and the 15 percent of total liquidity utilized by external bonding agencies. He clarified the money assigned to the 27th payroll would not be looked at differently if it is included in the economic contingency fund in relation to the total fund balance and 15 percent goal. The next time the 27<sup>th</sup> payroll will occur is 2026.

CM J. Brown asked about the 27th payroll. O'Mara explained his focus on the grand total fund balance and that the 27<sup>th</sup> payroll is safer in the economic contingency fund. CM J. Brown mentioned that once funds are moved to the economic contingency fund it stays there. They discussed the \$2.6M allocated to PO Roll/Prepay to 2019, which is for items assigned in FY18 but were not spent in FY18 so it is carried over into the FY19 budget. CM J. Brown mentioned the idea of allocating the \$500,000 to the affordable housing fund, infrastructure fund, or sidewalk infrastructure fund. O'Mara said the \$500,000 could be assigned but it would count as an expense in FY19. He explained that if the \$500,000 is assigned, in addition to the commitment to spend fund balance capital projects of \$1.6M plus the FY19 budgeted shortfall of \$1.8M, the total fund balance for next year will lower to about \$60M. CM Evans similarly asked about applying the remaining \$500,000 to the Neighborhood Action Match Program. O'Mara said an alternative approach could be to reallocate funds that have been approved in the FY19 budget to another project.

CM Mossotti commented about revenues projecting to either stay the same or go down but not to increase significantly. She asked about the budget stabilization reserve and O'Mara said that these funds could be used for anything in order to balance the budget, for example it could be used to make up for the \$1.8M gap in the FY19 budget. They agreed the ultimate goal is for total fund balance to increase from \$64M because of 15 percent metric for our bond rating.

CM Moloney mentioned the company, Train, which recently closed its operations in Lexington, concerns for upcoming budget needs like the pension and that it would be more appropriate to consider additional projects during the next budget process. CM F. Brown explained that if the motion passes the money will go back under the control of the administration and suggested assigning the \$500,000 to an account for a new city hall, which would solidify the council's commitment to the project. CM Stinnett added that the council does approve the budget and any budget amendments proposing the use of these funds.

A motion was made by CM Farmer to approve the administration's FY18 fund balance allocation recommendations, which moves \$1,842,300 into the economic contingency fund and \$1,400,000 into the budget stabilization reserve, seconded by CM Bledsoe. The motion passed without dissent.

CM Stinnett said that the resolution related to the 27<sup>th</sup> payroll program could be on the agenda next month under CM Lamb's committee item.

No further comment or action was taken on this item.

#### **IV. Items Referred to Committee**

No action was taken on this item.

A motion was made by CM Farmer to adjourn, seconded by CM Mossotti. The motion passed without dissent.

The meeting adjourned at 2:06 p.m.

HA  
11-5-18