



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

January 29, 2019

### **Summary and Motions**

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Vice Mayor Kay called the meeting to order at 1:06 p.m. Committee members Moloney, Ellinger, J. Brown, Lamb, Farmer, Evans, F. Brown, Mossotti and Bledsoe were in attendance. Councilmembers McCurn and Plomin were also in attendance as nonvoting members.

#### **I. Election of Committee Chair / Selection of Vice Chair**

CM F. Brown nominated CM Bledsoe as chair of the committee; CM Bledsoe agreed to serve as chair. There were no other nominations.

A motion was made by CM F. Brown to elect CM Bledsoe as chair, seconded by CM Ellinger. The motion passed without dissent.

CM Bledsoe said that she would like to select CM Ellinger as vice chair of the committee; CM Ellinger agreed.

#### **II. Approval of November 27, 2018, Committee Summary**

A motion was made by CM Mossotti to approve the November 27, 2018 Budget, Finance & Economic Development Committee Summary, seconded by CM Lamb. The motion passed without dissent.

#### **III. Financials Update – December 2018**

Rusty Cook, Director of Revenue, provided an update on the city's financials through December. He reported comparative unemployment rates through November; Lexington at 2.7, Lexington MSA at 2.7, Kentucky at 4.4, and the U.S. at 3.9. In October the rates were 3.2, 3.3, 4.5 and 3.7, respectively. He said he anticipates the rates to bump up in January. He reviewed the 2017/2018 comparison of Fayette County's economic indicators. Cook said the city is down overall by about \$1.9M versus the budget. He reviewed the top four revenue sources (year to date), highlighting that employee withholding is over budget by \$242,078; net profit is the majority of the deficit at \$1.8M; insurance is over budget by \$61,741; franchise fees are below budget by \$465,617 due to a wet and mild fall. He compared 2017 to 2018, year to date; he said we are showing strong growth in employee withholding. In regards to net profit, he pointed out that our estimated payments are not as strong as anticipated in addition to extensions being down but he expects a lot extensions during this tax season.

Melissa Lueker, Director of Budgeting, reported a slowdown in the services category when reviewing the other revenue sources; she added that the other categories are doing well. On the expense side, she said our personnel expenses look good so far but pointed out that January is a large month for personnel so we will have a better picture in February. She explained that operating expenses grew about \$1M from November and highlighted how December is typically a slow spend month. She said other category variances are due to timing issues. She concluded that the net variance year to date (actual to budget) is about \$7.2M and said that is overstated because of timing issues in expenses. She compared the current year to prior year (year to date), reporting revenue with a positive variance of \$8.7M and expenses are up by \$10.3M

CM F. Brown confirmed the total revenue number for FY2019 (year to date) is not 50 percent of the budget. They discussed how the budget is not built equally across 12 months, adding that we expect more revenue in the second half of the year. He also asked about outstanding FY2019 expenses and Lueker highlighted an insurance payment of \$10M, grant matches that often fall towards the end of the year, and that January is typically large month for personnel. Lueker explained how the budget process is based on a monthly breakout, particularly when working on the upcoming FY budget, and that they don't look at it as one-twelfth of the budget. She added that debt service is budgeted based on the payment schedule and when payments are due.

Mossotti asked if personnel variance is because of overtime. Lueker stated that compared to budget, the positive personnel variance has absorbed overtime costs for the first six months but that could change.

No further comment or action was taken on this item.

**December 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	17,705,313	15,842,973	1,862,340	11.8%
OLT - Net Profit	3,443,763	4,456,054	(1,012,291)	-22.7%
Insurance	0	20,215	(20,215)	-100.0%
Franchise Fees	1,630,934	1,711,227	(80,293)	-4.7%
<b>TOTALS</b>	<b>22,780,010</b>	<b>22,030,469</b>	<b>749,541</b>	<b>3.4%</b>

**December 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	100,412,562	100,170,484	242,078	0.2%
OLT - Net Profit	11,788,664	13,601,240	(1,812,576)	-13.3%
Insurance	16,440,408	16,378,667	61,741	0.4%
Franchise Fees	11,542,955	12,007,572	(464,617)	-3.9%
<b>TOTALS</b>	<b>140,184,590</b>	<b>142,157,963</b>	<b>(1,973,373)</b>	<b>-1.4%</b>

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

<i>For the six months ended December 31, 2018</i>				
	Actuals	Budget	Variance	% Var
<b><u>Revenue</u></b>				
Payroll Withholding	100,412,562	100,170,484	242,078	0.2%
Net Profit	11,788,664	13,601,240	(1,812,576)	-13.3%
Insurance	16,440,408	16,378,667	61,741	0.4%
Franchise Fees	11,542,955	12,007,572	(464,617)	-3.9%
Other Licenses & Permits	3,694,153	3,277,030	417,123	12.7%
Property Tax Accounts	20,758,259	20,684,508	73,752	0.4%
Services	10,683,415	12,123,033	(1,439,619)	-11.9%
Fines and Forfeitures	144,334	119,500	24,834	20.8%
Intergovernmental Revenue	96,638	155,432	(58,794)	-37.8%
Property Sales	112,665	125,000	(12,335)	-9.9%
Investment Income	696,424	234,502	461,922	197.0%
Other Financing Sources	591,000	591,000	-	-
Other Income	1,892,865	1,834,193	58,672	3.2%
<b>Total Revenues</b>	<b>\$178,854,344</b>	<b>\$181,302,162</b>	<b>(\$2,447,817)</b>	<b>-1.4%</b>

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

<i>For the six months ended December 31, 2018</i>				
	Actuals	Budget	Variance	% Var
<b><u>Expense</u></b>				
Personnel	110,278,661	111,320,982	1,042,321	0.9%
Operating	22,015,315	28,575,261	6,559,946	23.0%
Insurance Expense	938,061	1,194,931	256,869	21.5%
Debt Service	28,146,487	28,493,051	346,563	1.2%
Partner Agencies	8,831,125	10,736,075	1,904,950	17.7%
Capital	257,892	591,731	333,839	56.4%
<b>Total Expenses</b>	<b>\$170,467,542</b>	<b>\$180,912,031</b>	<b>\$10,444,489</b>	<b>5.8%</b>
<b>Transfers</b>	<b>2,548,035</b>	<b>1,746,699</b>	<b>(801,335)</b>	<b>113.7%</b>
<b>Change in Fund Balance</b>	<b>\$5,838,767</b>	<b>(\$1,356,569)</b>	<b>\$7,195,336</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%	3.2%	3.3%	2.7%	N/A
Quarterly Fayette County	2016	-	-	187,908	-	-	192,063	-	-	194,300	-	-	196,500
Employment	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
	2018	-	-	191,578	-	-	193,808	-	-	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	1,243	952	760
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	279	174	149
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	1,010	1,086	953	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	14	-	15

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 Fees		Miscellaneous		Penalty & Interest		Total Collections	
	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	61,651	35,892	63,794	38,728
September	225	800	4,083	1,260	31,372	55,540	35,680	57,600
October	150	375	2,431	536	88,286	50,654	90,867	51,565
November	225	525	1,247	1,664	28,552	40,359	30,024	42,548
December	375	600	1,548	572	33,737	31,407	35,660	32,579
<b>Totals</b>	<b>1,725</b>	<b>4,250</b>	<b>12,808</b>	<b>6,346</b>	<b>259,004</b>	<b>220,788</b>	<b>273,537</b>	<b>231,384</b>

### IV. CAFR, FY2018

Bill Meyer, Managing Partner with Strothman + Co, presented the highlights of the FY2018 audit. He said their audit opinion is a “clean opinion”, which is the highest level opinion. He reviewed the standards that are mandated for comprehensive annual financial reports and noted the city’s accounting is done in two ways, full accrual basis and governmental accounting. He highlighted the general fund balances and the city’s positive equity. He pointed out a change in accounting standards and how the city’s share of the unfunded pension liability impacts the accrual based accounting. He reviewed points of the audit that required, including the significant accounting policies, no uncorrected misstatements, and no difficulties in dealing with management. Lastly, he pointed out the areas where estimates versus actuals were used in the audit.

J. Brown asked about the rationale of the new accounting standard, statement number 74, and if that would impact the bond rating. Meyer cannot say for sure but he believes bond agencies understand that

all jurisdictions have adopted the standard throughout the country. Meyer talked about how the Governmental Accounting Standards Board has been trying for many years to make government financial statements more like for-profit statements.

F. Brown asked about the items of concerns that are summarized in a separate report and if it was forthcoming. Meyer commented on the process for concerns that rise to the level of a “material weakness” or “significant deficiency.” He said that nothing rose to a level this year so they will not issue a letter. They discussed the presentation taking place for the Internal Audit Board.

No further comment or action was taken on this item.

#### **V. Items Referred to Committee**

A motion was made by CM Lamb to remove *the review of resolution 156-94, 27<sup>th</sup> pay period funding* from committee, seconded by CM Ellinger. The motion passed without dissent.

A motion was made by CM Ellinger to adjourn, seconded by CM Lamb. The motion passed without dissent.

The meeting adjourned at 1:36 p.m.