



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

February 26, 2019

### **Summary and Motions**

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Chair Bledsoe called the meeting to order at 1:04 p.m. Committee members Kay, Moloney, Ellinger, J. Brown, Lamb, Farmer, Evans, F. Brown, and Mossotti were in attendance. Councilmembers McCurn, Reynolds and Plomin were also in attendance as nonvoting members.

#### **I. Approval of January 29, 2019, Committee Summary**

A motion was made by CM Ellinger to approve the January 29, 2019, Budget, Finance & Economic Development Committee Summary as amended, seconded by VM Kay. The motion passed without dissent.

Discussion of the motion amended the summary to reflect that Farmer was not in attendance for the meeting.

#### **II. Financials Update – January 2019**

Rusty Cook, Director of Revenue, presented the financial update through January. He reported the comparative unemployment rates through December are doing well, with Lexington at 2.8, Lexington MSA at 2.9, Kentucky at 4.4, and the U.S. at 4.0. He reviewed Fayette County's economic indicators, highlighting the number of permits and new businesses licenses issued are both up and foreclosures are down. He reported the top four revenue sources (year to date), with employee withholding below budget by \$3.8M, net profit below budget by \$2.1M (he pointed out it was \$1.8M below budget in December), insurance below budget by \$589,065 (it is essentially back to budget as of February 25), and franchise fees under budget by \$617,165. He compared prior year to current year, year to date.

Melissa Lueker, Director of Budgeting, reviewed other revenue sources (actual to budget). She pointed out an improvement in the services variance because of increases in EMS revenues and bed fees. She said she anticipates this category to shift through the end of the year. She said overall we are behind budget by \$6.7M. She reviewed expenses (actual to budget), highlighting personnel within one percent of the budget, which is good because January is a large month for pay-outs. She said we have overspent in overtime since the beginning of the fiscal year but that is offset in the overall personnel variance because of other accounts. She reported a positive variance of \$6.9M under operating and said they encumbered some of that variance to end the fiscal year with a balanced budget. She reviewed the variance for debt service, partner agencies, and capital, and reported the overall variance for expenses at \$10.3M. Taking revenue into account, she reported the change in fund balance at \$2.8M, which is less than the deficit they budgeted for at this time in the year.

Moloney mentioned the PeopleSoft upgrade project and the problems it is causing in our finances, particularly for employees; he questioned the accuracy of the numbers in the presentation. Lueker said the information she presented is correct because they are based on actuals and that the PeopleSoft problem is with encumbrances. Moloney emphasized the impact on employees. Todd Slatin, Director of Purchasing, said they have identified the problem; Oracle is working on a long-term programmatic fix and there is a manual workaround supported by a team of three people from the Division of Enterprise Solutions reviewing the budget and purchase orders for each line. Moloney asked about our initiative to

move to the cloud and if other cities are doing this. Phillip Stiefel, Director of DES, said there are cities using the Oracle cloud and added that Oracle's development team is working to address the problem. Aldona Valicenti, CIO, clarified this is not a cloud issue, it is an issue with how the data transferred with encumbrances.

F. Brown asked about a hiring freeze. Sally Hamilton, CAO, said they have implemented a "hiring frost", explaining that all public safety positions and social worker positions are moving forward but others, for example in the divisions such as parks and engineering, are on hold. Hamilton said revenue is down but the city is under in expenses so we are doing okay. They discussed the precautions to control operating expenses now, before the last quarter, in case the budget doesn't start to balance. Hamilton recalled a significant positive variance under operating last year, in May, and a large spend in June, which impacted the fund balance considerably. The variance for investment income was clarified as an accounting entry with an adjustment of cost to market. Lueker explained that the 'other financing sources' category has met budget and nothing else will change for that line.

Farmer confirmed that we are trying to catch up by about \$1.8M to break even by year-end. Lueker explained that \$1.8M of budget stabilization funds were used to help cover the cost of the pension phase-in and start the fiscal year with a balanced budget. She explained how that number could grow depending on what happens with revenue. They clarified the goal for FY19 to recover \$1.8M with recurring revenue. He asked if \$1.8M is still accurate or if that number has grown and Lueker said it has because other revenues have softened. No further comment or action was taken on this item.

#### January 2019 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	8,733,627	12,797,216	(4,063,589)	-31.8%
OLT - Net Profit	2,139,010	2,455,522	(316,512)	-12.9%
Insurance	2,844,318	3,495,125	(650,807)	-18.6%
Franchise Fees	2,536,590	2,689,138	(152,548)	-5.7%
<b>TOTALS</b>	<b>16,253,546</b>	<b>21,437,001</b>	<b>(5,183,455)</b>	<b>-24.2%</b>

#### January 2019 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	109,146,190	112,967,700	(3,821,510)	-3.4%
OLT - Net Profit	13,927,674	16,056,762	(2,129,088)	-13.3%
Insurance	19,284,727	19,873,792	(589,065)	-3.0%
Franchise Fees	14,079,545	14,696,710	(617,165)	-4.2%
<b>TOTALS</b>	<b>156,438,136</b>	<b>163,594,964</b>	<b>(7,156,828)</b>	<b>-4.4%</b>

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

<i>For the seven months ended January 31, 2019</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Revenue</u></b>				
Payroll Withholding	109,146,190	112,967,700	(3,821,510)	-3.4%
Net Profit	13,927,674	16,056,762	(2,129,088)	-13.3%
Insurance	19,284,727	19,873,792	(589,065)	-3.0%
Franchise Fees	14,079,545	14,696,710	(617,165)	-4.2%
Other Licenses & Permits	3,987,418	3,650,155	337,263	9.2%
Property Tax Accounts	21,866,942	22,237,791	(370,850)	-1.7%
Services	14,234,993	14,304,180	(69,188)	-0.5%
Fines and Forfeitures	175,199	139,417	35,783	25.7%
Intergovernmental Revenue	170,105	257,347	(87,242)	-33.9%
Property Sales	123,325	145,833	(22,508)	-15.4%
Investment Income	813,883	273,586	540,298	197.5%
Other Financing Sources	591,000	591,000	-	-
Other Income	2,146,608	2,079,975	66,633	3.2%
<b>Total Revenues</b>	<b>\$200,547,609</b>	<b>\$207,274,248</b>	<b>(\$6,726,639)</b>	<b>-3.2%</b>

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

<i>For the seven months ended January 31, 2019</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Expense</u></b>				
Personnel	132,800,470	134,470,414	1,669,944	1.2%
Operating	26,233,266	33,130,932	6,897,666	20.8%
Insurance Expense	938,061	1,371,133	433,072	31.6%
Debt Service	28,572,928	28,920,658	347,730	1.2%
Partner Agencies	12,922,480	13,484,895	562,416	4.2%
Capital	302,499	720,952	418,453	58.0%
<b>Total Expenses</b>	<b>\$201,769,703</b>	<b>\$212,098,985</b>	<b>\$10,329,282</b>	<b>4.9%</b>
<b>Transfers</b>	<b>2,961,308</b>	<b>2,128,436</b>	<b>(832,873)</b>	<b>111.2%</b>
<b>Change in Fund Balance</b>	<b>(\$4,183,403)</b>	<b>(\$6,953,172)</b>	<b>\$2,769,769</b>	

### Comparison of Economic Indicators 2018:

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	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%
Unemployment Rate	2018	3.0%	3.6%	3.4%	3.0%	3.2%	4.0%	3.8%	3.2%	3.2%	3.3%	2.7%	2.8%
	2019	N/A											
Quarterly Fayette County	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
Employment	2018	-	-	191,578	-	-	193,808	-	-	N/A	-	-	N/A
	2019	-	-	N/A	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	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
	2019	1,017											
Fayette County New Business	2017	201	253	418	468	621	328	206	281	205	247	213	140
Business Licenses	2018	219	250	379	751	535	286	166	264	209	279	174	149
	2019	216											
Home Sales (MSA)	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	887
	2019	N/A											
Fayette County	2017	27	17	16	19	16	17	20	22	19	16	26	16
Foreclosures	2018	21	0	22	21	21	22	16	25	28	14	-	15
	2019	11											

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	61,651	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
January	150	424	2,138	1,832	43,646	56,185	45,934	58,441
<b>Totals</b>	<b>1,875</b>	<b>4,674</b>	<b>14,946</b>	<b>8,178</b>	<b>302,649</b>	<b>276,973</b>	<b>319,471</b>	<b>289,825</b>

### III. Efforts to Reduce Barriers for Second-Chance and Reentry Employees

There were two presentations under this item, business opportunities and state incentives. Rob Perez, local business owner of DV8 Kitchen, presented the story of his wife's and his creation of DV8 Kitchen, talking about their experience and the development of the social enterprise. He defined the difference between addiction and recovery and reviewed statistics about their business' successes. He noted that most businesses have hiring processes that automatically eliminate second chance job applicants. He reviewed their process of hiring individuals in recovery, and highlighted their reliance on partnerships with recovery centers and residential programs. He said the people in recovery are trying to help themselves, and he posed the question, what if Lexington challenged every business owner to hire just one second-chance employee. He emphasized the impact that could have on many different parts of the community, like overcrowded jails and recidivism rates.

J. Brown said DV8 Kitchen has drawn attention to a population that is looking for opportunities and we need to support that. He asked about the capacity of the DV8 program and turnover. Perez said there are not enough businesses that are willing to give these folks a chance after they finish the program. He explained it is best for DV8 to remain a six-month program and how the workflow will get better when more places become willing to hire someone with a past.

Reynolds said she would like to work with Perez to grow this model. She has had many conversations with people in her district and with the city about addiction and the need to put a dent in the opioid epidemic. She said she would be happy to facilitate conversations with businesses in her district.

Evans asked several questions regarding the conference and associated cost described in the packet, the response from the business community, and how Perez is getting his model out and communicated to the local business community. She described a sense of urgency to work with the business community now and that it really only requires an employer to be more engaged.

Perez said the response in the community has been overwhelming so much so he felt the need to establish a formal program and model. He explained this includes what DV8 does, how they hire second chance employees and give in the most impactful way so the employees learn how to have gainful employment the rest of their lives, which is driven by their belief to do this for a higher purpose, God. **His model incorporates these things to create success.** He said the first conference is sold out and emphasized the need to convert that interest from the community into action. Evans and Perez discussed the idea of the model applying in a public format. Evans expressed concerned about the cost of the conference for small businesses, who will likely be the ones to use this model. Bledsoe said she is working with Kevin Atkins and Commerce Lexington on this issue, and the conversation about how council would like to support the effort **will be** coming.

Mossotti asked about the city's role in these opportunities. Elodie Dickinson and Andrea James, with the Mayor's Office, explained how they are working together to address substance abuse and how workforce development and employment is a part of that. James mentioned Lexington's charitable community and that there are businesses who have employed people in recovery for a long time. They mentioned federal funding that will likely start trickling down through the state and the importance of strategically connecting our needs around a funding stream. Dickinson mentioned the workforce training grant that will open in the fall, which includes a focus on reentry. She pointed out the need to expand this model beyond the food sector, as well as creating a next step for those who complete the DV8 program, which she is working on with Commerce Lexington.

Michelle DeJohn and Melody Westerfield, both representatives of the Kentucky Career Center, Office of Employer and Apprenticeship, spoke about state incentives to businesses for hiring second chance employees. DeJohn described the work opportunity tax credit as a federal tax credit program to incentivize businesses to hire individuals from targeted populations facing various barriers. She reviewed targeted groups and the maximum tax credit employers can receive for each group. She talked about the federal program and how that trickles down through the state to the local level. She reviewed the forms that are all available through <https://wotc.ky.gov>. She also pointed out a separate Kentucky tax credit program that credits a business \$100 for hiring an unemployed individual. She said she is available to meet with businesses to get them set up.

Westerfield said the Federal Bonding Program puts high-risk, hard-to-place job seekers back to work. The program provides a fidelity bond that is a limit-liability insurance policy at no cost to the job applicant or employer. Westerfield reviewed the new hires that are eligible for this program and what the bond covers (e.g. theft, forgery, embezzlement, etc.) She said the bonds are issued in \$5,000 increments up to \$25,000, for the first six months of employment, and pointed out that there are not a lot of requirements to utilize the bond. She encouraged businesses to post jobs in the Kentucky Career Center focus talent system (<https://focustalent.ky.gov>) and have the employee apply for the job; the Kentucky Career Center will take it from there.

Plomin asked about the money that is left on the table. DeJohn said the work opportunity tax credit program is funded federally based on what is certified or denied; she explained how usage of the program is essential for it to continue. She said the federal bond program in Kentucky just started last summer and requested councilmembers to help spread the word. Plomin said chambers of commerce would be a good way to get the word out.

Evans asked what was actually bonded, and DeJohn said they bond the position and employee; the insurance bond helps provide the employer's confidence. DeJohn pointed out that the national program has a 98 percent success rate, and that Kentucky was the 50<sup>th</sup> state to begin utilizing the program. Evans said the bonds send a mixed message to employers regarding these potential employees. DeJohn mentioned that employees can be preapproved for a bond, which can incentivize businesses to hire them as a second-chance employee. No further comment or action was taken on this item.

#### **IV. Review of LFUCG Debt**

F. Brown started his presentation explaining his original intention to evaluate whether the city needed to challenge, amend, or renew the Comprehensive Debt Management Policy. He said the current policy, adopted in 2014, is a very good policy but he pointed out that we have not followed it the past couple of years. He reviewed the makeup of the policy, specifically focusing on three objectives: purposes for issuing bond debt, debt structures, and tests of affordability and capacity. He highlighted the city's debt service capacity target of 10 percent of recurring revenue and the total amounts bonded for capital projects from 2013 to 2019. He highlighted LFUCG's outstanding principal for 2019 of \$375.9M. He emphasized that we are over the 10 percent target, proposing a path to achieve the target by 2025 by bonding a maximum of \$20M annually for the next five years. He reviewed debt in several comparable cities. Finally, he recommended the council monitor debt and maintain budget controls as outlined the Comprehensive Debt Management Policy.

Moloney stated that 55 percent of our budget is allocated to public safety, 12 percent is allocated to debt, and we will have to produce \$3.6M or more for pensions going forward. He said this is concerning because 70 percent of the general fund is spent before we pay employees and other obligations, such as parks, paving, and outside agencies. He reminded the committee net profit is going down.

Farmer referenced page 55 of the packet explaining his interpretation that if we bond \$20M each year rather than bonding zero, it would take one extra year to get below the 10 percent goal. F. Brown pointed out the schedule incorporates three percent growth annually and that it could take longer due to reductions in incoming revenue, adding that we currently have issues with revenue. He explained that \$20M was used because he acknowledges the city has large items we need to budget for in the future. He hopes we don't go higher than \$20M for the next five years. They discussed the idea that some items could cost more if delayed and prioritizing projects that are necessary.

J. Brown asked how the 10 percent goal was established in the original policy. Holbrook stated that he was not sure. He added that we have a matrix from one of our bond agencies that include rating criteria that he can send to the council. J. Brown discussed the idea of raising the percentage to bring us into compliance with our own policy and pointed out that the length of the city's bonds match the useful life of the asset. He asked about financing a new government center, particularly through a public-private partnership funding mechanism, and how that would factor into the city's debt. Holbrook said the Governmental Accounting Standards Board is in the process of implementing new standards for leases that would make the payments more similar to bonds when listed in the books. He also distinguished the difference between lease agreements versus bonds, pointing out that we are obligated to pay bond payments before anything else.

Kay asked how bonding impacts our rating. Referencing the comparable cities from the presentation, he concluded there is no correlation between the rates (debt/revenue) and the bond rating and that there are significant other factors that agencies take into account. Holbrook said some of those factors include the amount of fund balance as a percentage of revenue and growth in fund balance; additionally each city has a specific framework they fall under based on their state. He pointed out Kentucky taxes are based on payroll versus a more stable property tax base. Kay asked if the current increases in capacity have had an impact on our bond rating, and Holbrook said it has not. Kay feels that we should still pay attention to the bond capacity but we should not be driven by this goal when we look at our budget.

Lamb asked if the administration anticipates any large projects coming up that would need to be bonded. Hamilton stated that they do not anticipate anything that she would consider a large project. She pointed out the \$22M bonded for the historic courthouse, bumping up the total bonded for that year. She painted a picture for FY20, describing an increase in debt service of \$2.2M plus, for example, \$25M in new bonds (\$750,000 debt service), for a total cost of \$3M; that in addition to \$3M for the pension. She concluded that puts the city out \$6M at the start. Referencing the chart on page 56, Lamb asked if the existing pension bonds include CERS. Holbrook stated the chart only includes police and fire pension bonds and does not include CERS. Lamb pointed out the investment in our community through some of the recent large projects and how she is hopeful we will see the benefit of that soon.

Moloney said he thought our bond rating went down in 2009. He distinguished cities that have property taxes to pay bonds from Lexington, who is reliant on payroll taxes that can fluctuate. He said Louisville's rating is high because they own their water company, which is reliable income. He asked about merging sanitary sewer bonds with general fund bonds to get a better rating. Holbrook explained the different sources for general fund revenue and sanitary sewer revenue. In regards to a new city hall, Moloney said a total of \$2.9M for maintenance costs of our existing buildings would shift towards a new city hall; it won't affect our bonding if we stay in that range. No further comment or action was taken on this item.

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

Bledsoe pointed out the addition of annual updates to the referral list, including the city's economic development partners. No further comment or action was taken on this item.

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

The meeting adjourned at 2:47 p.m.