Budget, Finance & Economic Development Committee

October 29, 2019

Summary and Motions

Amanda Bledsoe, chair, called the meeting to order at 1:02 p.m. Committee members Steve Kay, Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Bill Farmer, Angela Evans, Fred Brown, and Jennifer Mossotti were in attendance. Councilmembers Josh McCurn, Jake Gibbs, Preston Worley, Jennifer Reynolds, and Kathy Plomin were in attendance.

I. Approval of September 24, 2019, Committee Summary

A motion was made by CM Farmer to approve the September 24, 2019, Budget, Finance & Economic Development Committee summary; seconded by CM Ellinger. The motion passed without dissent.

II. Financial Update

Bill O'Mara, Commissioner of Finance, presented the financial update through September, the first quarter of the fiscal year. He said the comparative unemployment rates are again favorable; reporting the changes from July to August with the U.S. unchanged at 3.7 percent, Kentucky increasing from 4.3 to 4.4 percent, and Lexington-MSA and Fayette County decreasing from 4 to 3.4 percent. He said these rates are considered full employment by classic economics. Under economic indicators, O'Mara pointed out they are watching Fayette County employment closely, highlighting permits and new businesses are up slightly year over year, and home sales are the same. He talked about monitoring the local economy as well as the national and international economies and how global uncertainty affects low-interest rates in the U.S.

Rusty Cook, Director of the Division Revenue, reported the top four revenue categories all below budget but pointed out employee withholding, net profit, and insurance improved since the last month. He said refunds are up in employee withholding and net profit, which factors into the negative variance when comparing current-year to prior-year. He reported insurance premiums are showing strong growth current-year to prior-year and said franchise fees typically increase in October.

CM Moloney talked about a downward trend for net profit and what it tells us about the economy. He talked about public safety employees and said he doesn't feel good about net profit. Cook agreed it is a concern and explained how refunds are up by $300,000 from last year. He added that he feels better this year, at this point in the fiscal year, than he did the prior year, explaining net profit can pick up in the second half of the year like it did last year.

Melissa Lueker, Director of the Division Budgeting, continued the presentation and said the services category is one of the only positive revenue sources, which is due to the detention center. She said overall total revenue is down $625,000 compared to budget. Under expenses, she talked about a positive variance in personnel and mentioned the anticipated pressure on this variance in January, which is typically a high month for payouts because of the Division of Police. She highlighted the other categories and said expenses have an overall positive variance of $2.9 million; the total change in fund balance is $2.3 million. She compared current-year revenue and expenditures to prior-year, pointing out the budget for debt service has increased and they will be spending more in this category.

September 2019 YTD Actual Compared to Adopted Budget:

Revenue Category	Actual	Budget	Variance	% Var
OLT- Employee Withholding	49,895,955	50,552,592	(656,637)	-1.3%
OLT - Net Profit	6,051,252	6,179,262	(128,009)	-2.1%
Insurance	8,595,928	8,701,903	(105,975)	-1.2%
Franchise Fees	6,129,733	6,479,862	(350,129)	-5.4%
TOTALS	70,672,869	71,913,619	(1,240,750)	-1.7%

September 2019 YTD/September 2018 YDT Current Year to Prior Year:

Revenue Category	Sep '19 YTD	Sep '18 YTD	Variance	% Var
OLT- Employee Withholding	49,895,955	50,703,471	(807,516)	-1.6%
OLT - Net Profit	6,051,252	6,540,214	(488,962)	-7.5%
Insurance	8,595,928	8,162,240	433,688	5.3%
Franchise Fees	6,129,733	5,954,940	174,793	2.9%
TOTALS	70,672,869	71,360,865	(687,997)	-1.0%

2020 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget):

For the three months ended September 30, 2019	Actuals	Budget	Variance	% Var
Revenue				
Payroll Withholding	49,895,955	50,552,592	(656,637)	-1.3%
Net Profit	6,051,252	6,179,262	(128,009)	-2.1%
Insurance	8,595,928	8,701,903	(105,975)	-1.2%
Franchise Fees	6,129,733	6,479,862	(350,129)	-5.4%
Other Licenses & Permits	703,716	782,086	(78,370)	-10.0%
Property Tax Accounts	369,247	491,232	(121,984)	-24.8%
Services	6,397,756	5,934,954	462,802	7.8%
Fines and Forfeitures	46,915	65,050	(18,135)	-27.9%
Intergovernmental Revenue	33,415	54,781	(21,366)	-39.0%
Property Sales	40,561	37,500	3,061	8.2%
Investment Income	347,560	165,320	182,240	110.2%
Other Income	905,818	697,970	207,848	29.8%
Total Revenues	**$79,517,857**	**$80,142,512**	**($624,654)**	**-0.8%**

2020 Fiscal Year – Cash Flow Variance Expense (Actual to Budget):

For the three months ended September 30, 2019	Actuals	Budget	Variance	% Var
Expense				
Personnel	50,263,995	51,913,443	1,649,447	3.2%
Operating	11,685,049	12,844,636	1,159,587	9.0%
Insurance Expense	932,937	931,089	(1,848)	-0.2%
Debt Service	18,513,360	18,513,360	0	0.0%
Partner Agencies	6,131,228	6,203,481	72,254	1.2%
Capital	61,148	128,561	67,413	52.4%
Total Expenses	**$87,587,717**	**$90,534,570**	**$2,946,853**	**3.3%**
Transfers	**1,268,918**	**1,271,118**	**2,200**	**0.2%**
Change in Fund Balance	**($9,338,777)**	**($11,663,176)**	**$2,324,399**	

Comparison of Economic Indicators 2017/2018/2019:

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	3.3%	3.3%	3.5%	3.0%	3.2%	3.9%	4.0%	3.4%	N/A			
Quarterly Fayette County	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
Employment	2018	-	-	191,558	-	-	193,808	-	-	194,533	-	-	194,634
	2019	-	-	191,500	-	-	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	846	986	1,316	1,528	1,350	1,379	1,231	1,018			
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	259	446	736	557	297	267	264	244			
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	619	805	1,088	1,180	1,412	1,322	1,405	1,389	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	0	15
	2019	11	16	14	18	13	18	11	12	10			

N/A indicates information not available.
BLS Release Dates for Fayette Co. Quarterly Employment - 6 months after quarter end

FY20 Code Enforcement Nuisance Abatement/Lien Collections:

Month	Administrative Collection Fees		Miscellaneous		Penalty & Interest		Total Collections	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
July	450	675	5,057	1,430	89,851	15,407	95,358	17,512
August	450	75	4,058	2,068	77,099	61,651	81,607	63,794
September	450	225	8,930	4,083	72,184	31,372	81,564	35,680
Totals	1,350	975	18,046	7,581	239,134	108,430	258,530	116,986

III. FY19 Fund Balance

Wes Holbrook, Department of Finance, reviewed Moody's local government scorecard, noting cash balance and fund balance are the two largest factors the city can control in our bond rating. He pointed out the $17.7 million settlement in FY2017, which impacts our fund balance position. Using a graph, he explained how fund balance growth is increasing but not at the pace of revenue growth in recent years. He highlighted a slight uptick away from Moody's 15 percent liquidy floor in FY2019. He said this is the second year the change in fund balance has lowered under where it was five years ago, which is because of the legal settlement that was planned for. He said the economic contingency fund has steady growth through 2015 but it hasn't kept pace with revenue growth proportionately; $1.8 million would be needed to meet the 10 percent goal. He reported the fund growing by about $21 million since 2010.

Holbrook reported FY2019 ending with revenues exceeding expenses by $3.7 million. He reported overall growth in fund balance and highlighted growth in the economic contingency fund, $4 million assigned in insurance reserves and $11.4 million in budget stabilization, which is actually less by about $750,000 because of the employee supplement in the FY2020 budget. He reported a total of $2.2 million is available for reallocation.

Tyler Scott, Chief of Staff, described the fund balance as razor-thin and referenced the tough decisions made in early 2020, which employees bore the biggest brunt of. He mentioned support for the supplement in July and reviewed the administration's proposals for the fund balance. The first recommendation is to reimburse the budget stabilization fund, followed by an additional supplement to employees in December to support the morale of employees who are working harder than they ever have. Scott explained the recommendation for recruitment marketing and an operations assessment for the Division of Community Corrections to address issues he said are largely due to recruitment and overtime. Lastly, they recommended the remaining funds get assigned to council projects.

CM Mossotti asked what the timeline was for the Corrections recommendation in relation to the item in the Planning & Public Safety Committee regarding the recent survey of employees. Ken Armstrong said the assessment could take two to three months, explaining staff is already working on some issues; citing examples of improvements in recruiting and hiring, which has led to possibly one of the largest recruit classes in years. He said an assessment could include organizational structure, policy, operational orders, training, direct supervision, leadership process, personnel recruitment and retention, attrition rate, discipline process, population reduction, facility design, hospitalization, and guard duty processes. Mossotti asked if the administration would wait to move forward until the item is heard in the committee to allow the council and the administration to hear the concerns. She mentioned a long history of consultants and the more information shared upfront the better.

CM Lamb said she supports repaying the budget stabilization fund as well as an additional employee supplement because we were not able to give a cost of living increase to non-bargaining employees this year. She recalled the Explorium's presentation to the General Government & Social Services Committee on September 10, 2019, that highlighted changes they have made and that she would like to restore the funding that was cut from FY2020 Mayor's proposed budget.

VM Kay said the council is on record in the spring to make the allocation to employees and to replace funds back into budget stabilization if funds existed. He said he would like to hold the discussion of the other items until the Special Committee of the Whole meeting on November 12, 2019, to see all recommendations, including ones made in the spring.

Kay made a motion to approve the allocation of about $745,000 to replace the money from the budget stabilization fund as voted on by the council during budget discussions; seconded by Farmer. Discussion on the motion included Lamb clarifying the actual total is $744,468.

<u>A motion was made by Kay to approve the allocation of about $745,000 to replace the money from the budget stabilization fund as voted on by the council during budget discussions; seconded by Farmer. The motion passed with a 9 - 1 vote.</u> (Kay, Moloney, Ellinger, J. Brown, Lamb, Farmer, Evans, Mossotti, and Bledsoe voted yes; F. Brown voted no.)

<u>A motion was by Kay to report out this out at the October 29, 2019, Work Session; seconded by Farmer. The motion passed without dissent.</u>

Moloney said he didn't support the use of budget stabilization funds for employee bonuses or how the bonus amounts were determined. He believes the remaining fund balance should go back to the general fund, explaining that cutting expenses is the only thing saving the city, which is because of the work of employees. He explained his proposal for the bonuses, where employees with lower salaries would receive the largest bonus decreasing the amount on a scale so higher salaried workers receive a smaller bonus. He talked about bonuses being the same for all employees and employees questioning fairness. He also said the best time to do research regarding the jail is now, stressing the need for consultants to start working as soon as possible. Finally, he said morale is very important in regard to the bonuses.

CM J. Brown said he agrees with doing something for our employees but that he thinks we need to consider something on an annual basis, instead of doing this piecemeal. He agreed with hearing more information about the Division of Community Corrections before moving forward with a consultant as well as concerns about timing. He said many councilmembers understood the situation the city was in to build the budget and didn't submit individual requests for FY2020 so he would like to continue this conversation to consider requests.

CM Worley said he supported J. Brown's comments, adding that it is appropriate to have the discussion in a Committee of the Whole. He pointed the tight budget framework in May and June when councilmembers forewent projects and expressed support to put this in the November 12 COW. Farmer confirmed the uncommitted total was $1,461,496.

Farmer made a motion to place the remaining fund balance [$1,461,496] into account 1105 Council Fund, which would be for one time or capital expenses; seconded by F. Brown. Discussion on the motion included Moloney expressing the need to move forward with a consultant. Lamb said November 12 is two weeks away and expressed her desire to move forward today. She asked if council approval is needed to initiate the operations assessment. O'Mara said $30,000 is the maximum limit that projects can initiate without council approval but the authority for the financing would be required.

<u>A motion by Farmer to place the remaining fund balance [$1,461,496] into account 1105 Council Fund, which would be for one time or capital expenses; seconded by F. Brown. The motion passed with an 8 - 2 vote.</u> (Kay, Ellinger, J. Brown, Farmer, Evans, F. Brown, Mossotti, and Bledsoe voted yes; Moloney and Lamb voted no.)

> Lamb made a motion to amend to take out $40,000 for the Division of Community Corrections recommendation and to move forward with the assessment; seconded by Moloney. Discussion

on the motion to amend included Kay expressing concerns about spending an additional $30,000 on a consultant for the jail before the council has had time to get its own information. He mentioned a comprehensive assessment by Eastern Kentucky University four years ago and questioned what more the assessment would tell us than we already know about the real issues.

A motion by Lamb to amend to take out $40,000 for the Division of Community Corrections recommendation and to move forward with the assessment; seconded by Moloney. The motion failed, with a 2 - 8 vote. (Moloney and Lamb voted yes; Kay, Ellinger, J. Brown, Farmer, Evans, F. Brown, Mossotti, and Bledsoe voted no.)

CM Bledsoe confirmed the COW meeting scheduled for November 12, 2019, at 10 a.m. in Council Chambers. Kay said he plans to take the recommendations made in the spring first, then the administration's recommendations, followed by any other councilmember recommendations using a blind draw to determine the order to discuss those. O'Mara explained the council has endorsed the assignments in the past, which includes $4 million for health insurance reserves (recommended by consultants) and $11.4 million for budget stabilization for FY2019; this allows them to publish the CAFR.

Lamb made a motion to endorse FY2019 fund balance assignments, $4 million for health insurance and $11.4 million in the budget stabilization reserve; seconded by Farmer. Discussion on the motion included J. Brown's comments about the health insurance funds spent year-to-date being less than what is budgeted and if $4 million is still necessary. O'Mara said the consultants do not recommend lowering the reserve, explaining we see ups and downs. He passed along the consultant's warning about new miracle-healing drugs that are tremendously expensive (e.g. $100,000 per injection), which could play a factor in our reserves should they be prescribed. Farmer asked about the legal reserve needed in the past and O'Mara said they do not recommend it.

A motion by Lamb to endorse assignments, $4 million for health insurance and a total of $11.4 million in the budget stabilization reserve; seconded by Farmer. The motion passed without dissent.

No further comment or action was taken on this item.

IV. Tax Increment Financing Districts

Holbrook first explained two economic development programs that Lexington participates in with the Commonwealth of Kentucky, Kentucky Business Investment Program and Tax Increment Financing. He said the TIF program incentivizes capital development, where LFUCG is responsible for pledging 80 percent of net-new payroll and property taxes over 20-30 years. He explained the focus on net new to Fayette County and to the state. He said Lexington has never done a local-only TIF. He highlighted the types of public infrastructure that qualify for reimbursement and said there are nine TIF projects in Lexington, compared to 11 in Louisville. He said the state's requirement for job creation to be net-new to the state is challenging because of the location of Lexington in Kentucky. He talked about how the state has informed LFUCG they wouldn't be able to participate in TIFs at the same level they have in the past; using a chart he explained the decrease in state participation after the Summit, noting the projects in green are property tax only TIF projects. He showed a map of the projects in Lexington and reported the amount of money paid by LFUCG and the state to the projects, since 2015. He said the increment payments from the state are starting to dry up.

Kay asked why LFUCG has made payments towards Centrepointe and Midland when they are not yielding anything yet. Holbrook said this is based on the agreements and there is a timeframe to process the rebate, highlighting that the state has 90 days from when they finalize the revenue assessment, which can take much longer than four months. Kay asked if the state's portion will be contributed now that Centrepoint is generating revenue, which Holbrook said they have submitted for the first traunch. Kay asked what is being abated for Midland. Holbrook said it is for construction wages and property taxes, adding that Midland activated prior to the project being completed and the rebate will be provided when $20 million is expended.

Lamb asked about Lexington's limitations with state TIFs and if Louisville is facing the same problem. Holbrook said they have not had conversations with the state about other communities other than about Lexington's geographic location in the center of the state making it challenging to generate net-new jobs. He explained that Louisville can make a stronger case they are drawing from other states. Lamb talked about the Fountains project being the last TIF project in Lexington. Holbrook said if something is markedly different than the previous projects we might see larger state revenue sources recaptured; otherwise, the state's participation will look like property tax rebate. He said Lexington's participation has remained high regardless of the decline in the state's participation. Lamb confirmed there is a lot more space at Coldstream to develop and potentially create jobs.

Evans asked for clarification about new employees to the state, which Holbrook said the challenge isn't new jobs to Fayette County. Evans asked how other cities are proving their jobs are new to the state. Atkins explained the state looks as employees as a revenue stream through payroll taxes; using the Summit as an example, he distinguished the retail outlets were viewed as new revenue that the state would not have seen if not in Lexington. He said if you are in a TIF zone then the traditional incentives would have already been dedicated to the development project and therefore can't go to the companies as an incentive to the company itself.

Mossotti asked how Whole Foods and Anthropology, which moved from Lexington Green, fit into the equation under the Summit TIF. Atkins said the additional revenue is what would be calculated into the base. Bledsoe said she would like this item to stay in the committee with an update in about six months.

<u>No further comment or action was taken on this item.</u>

V. Items Referred to Committee

<u>No comment or action was taken on this item.</u>

Public comment was allowed. Comments were about a delinquent LEXserv bill.

<u>A motion was made by Mossotti to adjourn at 2:17 p.m.; seconded by Ellinger. The motion passed without dissent.</u>