Budget, Finance & Economic Development Committee

August 25, 2020

Summary and Motions

Committee chair, Amanda Bledsoe, called the meeting to order at 11:02 a.m. Committee members Steve Kay, Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Bill Farmer, Lisa Higgins-Hord, Fred Brown, and Jennifer Mossotti were in attendance. Councilmembers Josh McCurn, Mark Swanson, Preston Worley, Jennifer Reynolds, and Kathy Plomin attended as voting members.

Bledsoe read the following statement: "Due to the COVID-19 pandemic and State of Emergency, this meeting is being held via live video teleconference pursuant to 2020 Senate Bill 150, and in accordance with KRS 61.826, because it is not feasible to offer a primary physical location for the meeting."

A motion was made by Kay to suspend the rules for this special committee meeting and allow all council members to participate fully, including voting; seconded by Farmer. The motion passed without dissent.

I. Approval of June 23, 2020, Committee Summary

A motion was made by Farmer to approve the June 23, 2020, Budget, Finance & Economic Development Committee summary; seconded by Mossotti. The motion passed without dissent.

II. Local Small Business Economic Stimulus Program

Tyrone Tyra, Senior Vice President, Community and Minority Business Development for Commerce Lexington, with Larry Forester, a member of Commerce Lexington's board of directors and chair of their Minority Business Development Advisory Committee provided an update on the stimulus program. Tyra talked about using the Access Loan Committee to reaching businesses left out of federal relief programs and thanked the review team members. To date they received 235 applications requesting over $5 million; 151 companies were awarded funding. He spoke to the international flavor of the awardees; minority-owned businesses made up 30 percent of awarded businesses and women-owned businesses 36 percent. Almost $2.2 million of the grant funds have been awarded. Tyra showed a map of the businesses that received grant funds. He thanked several key individuals and partners, specifically Traditional Bank, to make this program possible.

Dan Mason, President of Traditional Bank, spoke about the Access Loan Committee and the opportunity for their business development staff to meet small business owners. He said small businesses bring life and vitality to our community. Elodie Dickinson, Director of Workforce and Business Engagement, introduced Mamadou Savane of Sav's Grill, which he opened in 2008. He talked about moving the business to a new location on East Main Street last year and reopening just before the pandemic hit. The second business owner and grant recipient, Arely Lara of Lara's Beauty Salon, spoke about being an entrepreneur, following her dreams, and the challenges of shutting down for two and a half months. Both owners thanked everyone for the grant.

Kay asked about interpreting the percent of minority and women-owned businesses and whether there is overlap. Tyra explained how the information was collected and said there was not much overlap. Kay asked how the committee made the decisions to allocate funds to applications. Tyra said they looked at payroll and harm to the business and created a CARES Act related formula to award the business. Four committee members are bankers, which allowed them to dig into the financials. Kay confirmed they reviewed applications as they came in but Tyra pointed the first applications submitted were not necessarily the first ones reviewed or awarded because of necessary follow-up to make applications complete. They discussed how the city reviewed the applications first to ensure they are registered with the city and up to date with taxes, etc. Tyra and his team only reviewed the ones the city approved. Kay established they are working on to distribute the remaining balance now. Atkins said the final list of businesses and their awards will be shared with the council.

Ellinger asked about reaching the goal for 50 percent of funds to reach minority and women-owned businesses, which Tyra said the total is 66 percent of the grant; the overlap is minimal. Tyra explained how he would communicate with businesses to collect additional information they needed and the committee review often led to additional communication. Tyra added that they are in the process of sending letters to the businesses that were flagged by the city. They talked about executing the program in five weeks because of the volunteer commitment of the committee. About $180,000 remains to be distributed.

In response to Plomin, Tyra said they hope to finish the program next week. Plomin asked about notification to the businesses who are not awarded, which they are doing now. Tyra said they will include the reason why they weren't awarded. Funding the businesses was first their priority. J. Brown said this program shows minority and women-owned businesses can be reached and mentioned the program exceeding its goal. He talked about the program's priorities and communicating with businesses that weren't awarded to help them in the future. Tyra said about 20 nonprofits received funding J. Brown recalled his concern to allow nonprofits to apply. J. Brown said the council should consider the total requests for the grant when they discuss coronavirus relief funds.

Lamb confirmed the total funds requested ($5 million) was before the city vetted applications, which Tyra added that some requests were over the $25,000 maximum. The breakdown of the amounts awarded will be on the final list of awarded businesses. They discussed some nonprofits who applied were not approved. Because of how well the minority and women-owned businesses goal was met, Swanson asked about lessons to be learned to incorporate minority businesses into government. Tyra said it's about intentionality, highlighting the flyer, his work with a minority business development consortium, the use of 27 partnering banks, and individual outreach to meet people where they are.

McCurn asked about entities that applied with multiple businesses. Tyra explained they looked at those carefully, using the Federal EIN. There were only a few instances, mostly in the hospitality industry, where multiple businesses under one entity were funded. Moloney spoke about federal aid programs for businesses during the pandemic not reaching minority and women-owned small businesses. He was surprised the request only reached $5 million, comparing it to the overall nonprofit request for ESR funds, which is traditionally much higher. He talked about the program supporting jobs and the money coming back to the city. He said these businesses are the most important community we can help.

Reynolds spoke about having more people to help answer questions about the application. She asked how this program compliments what banks are doing to support local businesses. Forester talked about the Small Business Administration's PPP Loan and this grant program filling the gap for those who did not get that funding, adding that some banks allowed businesses to move principal and interest payments back. He said an FAQ could be created to better prepare people for the application if this program was repeated. He concluded the program did the right thing for the right reasons.

Mossotti asked if there was a breakdown of the businesses by industry. Bledsoe said that Dickinson will be reporting a more detailed analysis once all the funds are awarded. Ellinger asked for the average grant award (rough estimate $14,500). Tyra said they looked at the need. Ellinger asked how many employees will benefit from the program, which will be in Dickinson's report. Ellinger confirmed the nonprofits awarded were not counted in the minority and women-owned businesses percentages. Worley coined the program as a council initiative, thanking all the partners, and concluded that businesses are the lifeblood of our community. Bledsoe said this will return to committee with a deeper analysis.

Bledsoe recessed the committee at 11:55 a.m. The committee returned at 12:31 p.m.

III. Current Financial Position – August 2020

Wes Holbrook, Director of Revenue, talked about a sharp dive in the comparative unemployment rate for Lexington to just above 4 percent, which is much lower than the national average around 10 percent and doesn’t match payroll collections, therefore indicating a false recovery. Payroll withholding is LFUCG’s largest revenue source (a combination of the number of people working in Lexington and how much money they make). He showed a loss of about five years of job growth. He reviewed preliminary numbers for the top four revenue sources, FY20 June year-to-date, pointing out the city’s net profit for FY20 is still about $5M behind, despite collections after the delayed tax filing deadline. He explained a significant loss in employee withholding from March when the city was $3.3M ahead of budget, resulting in $1.5M below budget in June. He mentioned the unknown impact of PPP loans. He said the insurance variance is likely because of car insurance rebates that companies issued.

June '20 YTD Actual Compared to Adopted YTD Budget

Revenue Category	Actual	Budget	Variance	% Var	Annual Budget	% Collected
OLT- Employee Withholding	206,714,539	208,250,000	(1,535,461)	-0.7%	208,250,000	99.3%
OLT - Net Profit	37,995,745	42,848,000	(4,852,255)	-11.3%	42,848,000	88.7%
Insurance	34,636,664	35,900,000	(1,263,336)	-3.5%	35,900,000	96.5%
Franchise Fees	25,478,399	26,350,000	(871,601)	-3.3%	26,350,000	96.7%
TOTALS	304,825,346	313,348,000	(8,522,654)	-2.7%	313,348,000	97.3%

Lamb established the original estimated loss for FY20 was about $9M in the fourth quarter (actual loss was about $8.5M). O’Mara said the PPP loans likely helped employee withholding from being the largest loss in revenue, as anticipated. The loss in net profit was much greater than predicted. The Division of Accounting is still reviewing year-end information, such as expenditures and actuaries. The fund balance discussion will take place in October. O’Mara said he cannot give any final figures on FY20 before then.

J. Brown asked about Lexington’s employment trends differing from national and state trends. Holbrook explained that because fewer people are looking for jobs, it’s making the unemployment rate appear lower than it actually is; employment data versus unemployment is a better indicator. Holbrook said employee withholding collections match better with the employment trend and July numbers not as strong as last year.

In response to Moloney, O'Mara said it is not known if $2M of budget stabilization that was budgeted to help balance the FY20 budget is needed but they hope the savings from operating, personnel, and medical in the fourth quarter will help cover lost revenue. O'Mara expects the budget stabilization funds that are reserved to be sufficient to balance FY20 if needed. Kay and Holbrook clarified net profit revenue the city receives is for the prior calendar year (i.e. calendar year 2019 tells what FY20 net profit will be). Kay talked about the idea of businesses not having the cash flow to pay their net profit tax for 2019 but stated that it's likely this owed money will eventually be paid to the city. Holbrook explained employee withholding is based on the fiscal year, July through June.

O'Mara continued the presentation, reviewing recent bond rating reports, which confirmed the city's AA rating with a stable outlook. He highlighted comments from Moody's reports, particularly the credit challenges, which are steps the city can control. He reviewed factors that could lead to a downgrade in rating. S&P reports expressed caution of a lower rating "if reserves are sustained at materially lower level." O'Mara said forecasts expect the recovery to be slow and that an unbalanced budget is okay for one year but not for the long-term.

Moloney asked about the council's resolution to repay the rainy day fund impacting our bond rating. Plans to restore funding to the two reserve funds were communicated to the agencies. In reference to the S&P's report and the budgeted deficit of $29.4 for FY21, Moloney talked about the need to save the relief funds for programs in next year's budget and avoid drastic cuts. O'Mara said the rating agencies are watching the level of reserve funds. Moloney talked about the possibility of facing a worse financial situation when creating next year's budget.

F. Brown questioned the perception of not adjusting expenditures based on S&P's comments of "less than 0.1 percent reduction in expenses" conflicting with the efforts made to balance FY20 and FY21 budgets. O'Mara said the comment is based on total expenses compared to the prior year, the FY21 budget is $378.9M, which will be released quarterly. F. Brown concluded that we shouldn't spend any money until we have the fund balance numbers.

Farmer referred to our community's need but said the pandemic isn't over, suggesting the council takes its time while considering coronavirus relief funds. He supports parceling the budget quarterly but mentioned roads that may need to be paved regardless of quarterly budget limitations. O'Mara clarified that requests to release additional funds are reviewed by the Division of Budgeting to manage government; those are approved when appropriate.

Kay mentioned future discussions to determine whether to spend relief funds. He talked about a 0.1 percent reduction in expenditures in correlation with the majority of the city's budget dedicated to payroll. O'Mara explained operational cuts were made to remain flat despite a variety of fixed costs that continue to go up. These are challenges in addition to 63 percent of the budget that is payroll related.

O'Mara continued the presentation, reviewing the FY21 budget use of $36M of non-recurring revenue. He reviewed the anticipated reimbursement of $25M of coronavirus relief funds and funds received to date. He reviewed recent changes to the economic contingency fund; the current balance is about $21.7M, or 6.2 percent of revenue. He illustrated cash flow for FY21 revenue, which won't have any short term borrowing needs. He talked about FY22 budget pressures using a scenario to outline FY22 challenges such as starting with a $23.6M deficit and insufficient cash to pay anticipated needs, indicating a potential need for short-term borrowing. He discussed expenses, with 63 percent dedicated to personnel and 14 percent for operating but pointed out the city can't control about half of operating costs; these are the two sections to review relevant to potential reductions to balance a budget. He provided examples of anticipated expense increases and finished the presentation by mentioning the community's immediate needs and how to stay financially healthy.

Bledsoe confirmed public safety step increases cost about $2 to $3M each year, CERS pension increases are about $2M to 2.5M. She recalled the original assumption that the city would be back to full capacity by August, which is not the case. O'Mara stated that with FY20 fourth-quarter net profit ending lower than the predicted 17 percent reduction, we may have overestimated net profit for FY21.

Mossotti talked about peoples' inability to pay various taxes because of the pandemic and assumptions used to create the FY21 budget. O'Mara outlined considerations such as the start of a recovery, property sales, and tax receipts but said assumptions are outdated quickly. He talked about various economists they work with regularly from across the state to stay tuned with the latest forecasts. Lamb and Lueker clarified CERS pension increases are paid to the state. Lamb said public safety employees are the only ones that receive step increases. Lueker explained, of the six bargaining units, four units are for Police and Fire are under the city's pension, two units for Community Corrections are under CERS pension.

J. Brown talked about cautious spending of coronavirus relief funds while diligently addressing the needs of the community, to ensure, for example, businesses are with us next year. He said the next financial presentation should review the condition of revenue and expenses that explains what's happening, particularly because of a possible positive variance for expenses. He discussed the repayment of a short term loan shouldn't be less than three years, comparing it to the mechanism used with the Lexington Convention Center. O'Mara explained an ordinance the drafted that would allow the Department Finance to determine the best way and time to request a line of credit and the complexities associated with requesting it.

F. Brown talked about looking at the city as a business, setting our priorities for expenditures, and the possibility of riding out FY22 without effecting services or employees by using economic contingency funds and making appropriate adjustments. With the unknowns of the pandemic impacting city services, he stressed the importance of basic services such as public safety and infrastructure, which reaches the whole community. F. Brown said the FY22 cash flow projection is premature that he likes the use of bonding as an option over short term borrowing.

Moloney and O'Mara discussed how the Kentucky Retirement Services Board determines CERS pension contributions and increases; O'Mara anticipates a 12 percent increase next year. Moloney referenced the use of surplus funds (i.e. fund balance) versus prioritizing coronavirus relief funds to get through the next six months and five years. He emphasized a focus on basic services and the importance to keep social services going.

Kay asked for a better understanding of why the city would borrow money to help with cash flow versus using the economic contingency fund. O'Mara compared the economic contingency fund to a savings account, explaining you could borrow from it but it lowers your liquidity ratios and could limit your ability to access short term loans. He said it's best practice to have the cash to meet immediate expenses at all times, the conversation is how long the reserves can protect. Kay talked about the present fiscal crisis, agreeing with the need to replenish the rainy day fund but to also consider the responsibility to think long term, specifically about the needs that will cost more in the long run, such as the road fund, and many other things like this. Lamb asked for more information about the possibility of another $30M of reimbursement funds from the federal and state government.

IV. Residential Assistance Program

Chris Ford, Commissioner of Social Services, outlined four housing assistance programs for a total cost of $980,000 to get started but he reminded the council of many unknowns. He said these programs are in collaboration with agencies to keep folks in their homes through the pandemic. The *affordable housing market partnership* (initial budget $100,000), led by the Lexington Housing Authority, would provide relief to those with the housing choice voucher and to their community of landlords to encourage these units to remain affordable. Ford described the *community feeding collaborative* (initial budget $100,000), led by United Way of the Bluegrass and Bluegrass Community Foundation, who has raised just under $1M, a lot of which has been dedicated to food insecurity. He said a small portion of this proposal would go to the *emergency relocation assistance program* (initial budget $50,000), working with the Division of Code Enforcement to keep folks safe when they need to be relocated.

Moloney clarified the funds approved for this programming comes from the first reimbursement allocation of coronavirus relief funds. He and Ford discussed how the governor's announcement about the $15M to address evictions being one of the unknowns. Ford said the proposed programs will get Lexington started. Moloney talked about seeing how the state funds impact Lexington before moving forward, which he believes is the responsibility of the state versus the city's responsibility to take care of basic services.

F. Brown and O'Mara confirmed that a budget amendment for $1.9M on the August 25 work session agenda supports the budgets for the household assistance programing that the council approved on August 11 at work session. The mayor's original proposal for household assistance was $3M but $1.9 was the amount available at the time. In response to F. Brown, Ford explained the program for rent and utility assistance for displaced service workers was approved in the spring under CARES Act funding ($500,000); they expect to help no less than 250 families. Ford said the initiatives presented today are to help the broader need to avoid eviction; we don't know how much of the $15M from the state will come to Lexington. He assured F. Brown there is no duplication. They discussed the position of landlords and accountability to benefit the client but also ensure funds go to the property owner.

Kay talked about the need to move swiftly and not wait for the state or federal government while emphasizing the fact that people are in jeopardy of losing their homes and don't have money for food, particularly because people in the lower end of the economic scale are in crisis. Mentioning the three different housing assistance programs, Swanson asked about safeguards to prevent people from double-dipping. Ford confirmed they have a system of partners to prevent that from happening, which Polly Ruddick, Director of the Office of Homelessness Prevention and Intervention, will explain. Swanson asked whether locals funds will be needed depending on how robust the state program is. Ford said he anticipates being able to use as much funds that are provided and "the need is there."

Ruddick continued the presentation and said the housing stabilization program covers housing eviction prevention and relocation, providing financial assistance to folks before and after eviction. Both services offer up to $4,000 per household. They kept eligibility requirements simple, including 80 percent Area Median Income and you must be a Fayette County resident. To ensure accountability, she pointed out the need for landlords to verify the reason for the loss of income and explained the importance to weed people out who are just refusing to pay rent. The relocation services require documentation between May 1 and August 24 for non-payment violations only. She said the courts, which opened Monday, are working through a backlog of cases, many for pre-pandemic violations. To access assistance, Ruddick said you can use the website, which was created by Lexington Fair Housing in June and has more than 2,000 signed up. She believes the partners will spend the funds quickly. You can also apply in person at any of the partners' offices. She talked about the statewide homeless management system that will avoid duplication and that reporting on the programs will take place every two weeks. Participation in the program would a 90-day notice of eviction while referencing the exhibits to the program scope in the packet. She explained the goal to allow people to remain in their homes to get through winter.

F. Brown asked about involvement with non-profits, churches, and the community. Ruddick said they prioritized non-profits to partner with by those with both diverse target populations and diverse locations. F. Brown said he can support the proposal for $980,000 but not the full $1.9M because of accountability. Sally Hamilton, CAO, explained the original proposal was for $3M but $1.9 was available; they envision spending $1.9M very easily (probably two weeks) but felt it prudent to start with $980,000 to see if the programs work.

In response to McCurn, Ruddick explained the tenant is responsible for exhibit B and C but encourages a conversation between the tenant and landlord, which follows the governor's executive order. They discussed a hypothetical situation with a landlord that only wanted the tenant gone, in which case the tenant would fall under the relocation program.

Mossotti asked if there is an estimate of the number of people facing eviction. Ruddick said research varies but a conservative moving estimate is that about $25M is needed to shore up rent loss in Fayette County. Of the more than 2,000 folks who applied for rental assistance, households are averaging $2,500 in back-rent. They discussed the ever-evolving process to prioritize and distribute funds to households, which the administration is working through. Mossotti confirmed they have been in communication with landlords.

Moloney asked about coronavirus relief funds versus the use of budget stabilization. Hamilton explained LFUCG received part of the first reimbursement from the Department of Local Government, of which $6.4M went into the economic contingency fund and what was left went into budget stabilization. The $1.9M, which is a reimbursement from DLG, is coming from budget stabilization. She indicated they are preparing to request the second reimbursement allocation, about $15M, which will go to budget stabilization when it is received. The discussed what resolution 269-2020 directs and confirmed a budget amendment will be required to use these reimbursement funds. Hamilton said they will learn more about the state's $15M to address evictions after September 8.

Bledsoe mentioned the application for $15.6M from the DLG for relief funds will be walked on at work session today. She asked about the 10 percent administrative fee, referencing the small business stabilization grant that had a 5 percent administrative fee. Charlie Lanter, Direction of Grants and Special Programs, explained the decision to use 10 percent, including that the contracts are small, the need to reach a viable fee, and that the workload is significant, particularly because of a short timeframe and follow up that will be required.

Plomin said a 10 percent fee is common for non-profits. She asked about the nearly 300 evictions that are going to court now. Ford said state regulations currently require a 30-day notice, as well as a meet and confer with the tenant and landlord. They discussed the Bluegrass Community Foundation and United Way's Coronavirus Relief Fund, which has spent $630,000, about half of that went to food insecurity; they are determining the priorities for the remaining $350,000. Ford said they anticipate the proposal of $100,000 to be used once they have exhausted their remaining balance. They discussed marketing the city's contribution to help raise funds.

J. Brown and Ford discussed the Rental Hardship to Impacted Service Employees (RISE) program that has $500,000 to distribute up to $2,000 per household for rent and utilities, to public-facing service employees who have been laid off or furloughed. J. Brown talked about the umbrella of residential assistance and how the Household Stabilization Partnership is collaborating with partners to meet folks where they are. He believes the full $1.9 million is needed and said these programs also inject money back into the economy, labeling landlords as small business owners.

<u>A motion was made by J. Brown to approve the household assistance programs (housing stabilization partnership, affordable housing market partnership, community feeding collaborative, and emergency relocation assistance program) and move forward with $1.9 million; seconded by Plomin. The motion passed without dissent.</u>

> Discussion on the motion included the following. Bledsoe asked for clarification because the program proposals total $980,000. J. Brown and Hamilton clarified the preference is to maintain approval of $1.9 million that would allow the administration to execute PSAs with partner organizations for the respective programs and increase funding based on where the money is needed without doing another budget amendment for the remaining but initially approved $1.9 million. Hamilton explained $980,000 was outlined with the programs to ensure the funds can be used correctly and expeditiously. It was established that the original approval of $1.9 million for household assistance programs was contingent upon council approval of the programs.

Ellinger asked about evictions that are happening now. Ford referenced the 30-day notice to give residents more time and said they continue to monitor and connect residents to resources. They talked about 150 eviction cases on the docket yesterday. Ellinger talked about a voucher program for cases currently before a judge, which Ford compared to a program in Louisville but said we are not doing that yet. Ford said the goal is to minimize evictions and limit displacement.

V. Coronavirus Relief Fund Proposals

Bledsoe suggested moving this item to the next BFED Committee meeting or a special committee meeting. The council discussed having a special meeting, waiting until the city receives additional relief funds and/or real fund balance numbers, as well as the public waiting to hear the discussion of the proposals during this meeting. Bledsoe confirmed she would have this item on the next regularly scheduled committee meeting, September 22.

<u>A motion was made by Kay that the next BFED Committee meeting on September 22 .includes all council members to participate; seconded by Mossotti. The motion passed without dissent.</u>

VIII. Items Referred to Committee

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

<u>A motion was made by F. Brown to adjourn (at 3:35 p.m.); seconded by Swanson. The motion passed without dissent.</u>

Link to video of the meeting: http://lfucg.granicus.com/MediaPlayer.php?view_id=4&clip_id=5193

HBA 9/16/20