



Budget, Finance & Economic Development Committee

January 26, 2021

Summary and Motions

Vice Mayor Steve Kay called the meeting to order at 1:04 p.m. The following members of the committee were present: Council Members Richard Moloney, Chuck Ellinger, James Brown, Josh McCurn, Susan Lamb, Preston Worley, Fred Brown, Amanda Bledsoe, and Kathy Plomin. Council Members Hannah LeGris, Liz Sheehan, David Kloiber, Whitney Baxter, and Jennifer Reynolds attended as non-voting members.

Kay 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."

I. Election of Committee Chair / Selection of Vice Chair

Motion by F. Brown to nominate Bledsoe as the chair of the committee; seconded by Ellinger. The motion passed without dissent.

Bledsoe selected Ellinger to be the vice-chair of the committee and he agreed to serve in that role.

II. Approval of December 1, 2020 Committee Summary

Motion by Plomin to approve the December 1, 2020, Budget, Finance, and Economic Development Committee summary; seconded by Ellinger. The motion passed without dissent.

III. Items Referred to Committee

a. Annual Status Review of Committee Referrals

Bledsoe pointed out item 16 needs a new council member sponsor and that items 17 – 20, and 29 can be removed from the committee.

IV. Quarterly Financial Update – December 2020

Erin Hensley, Commissioner of Finance, provided the financial update, first explaining that revenue is tracking ahead of expenses for the first six months of the fiscal year; a one-time \$4M transfer from the insurance fund helped reduce expenses. Property tax collections in December are on track year over year. At the advice of the city's auditors, the adjustment of net profit from FY2020 collected in FY2021 will be spread over 12 months. Wes Holbrook, Director of Revenue, reviewed the top four revenue categories, actual to budget. FY2021 was based on a conservative employee withholding budget and is tracking well ahead of what was budgeted, which could help avoid the use of one-time funds. Some FY2020 net profit revenue was collected in July and applied to FY2020 but some is still trickling in. Insurance has underperformed for the past five months but it is expected to be above budget for the rest of the year. Franchise fees are down by about 5 percent. When comparing current year to prior year, employee withholding is underperforming as a result of the pandemic. Net profit typically has a large December collection; an excess of \$5M was collected this December. Many services collections are underperforming but EMS fees are slightly above budget. Investment income is down, partly because of the low-interest environment.

Kay and Holbrook discussed that \$3.6M of net profit will be spread over the last six months of the fiscal year; additionally \$3.6M has already been adjusted for in the first six months of the year. Holbrook explained that net profit actuals are \$18M but \$22M has come in the door and net profit will further adjust to \$15M. F. Brown talked about the revenue sources listed between other licenses and permits and other income in the presentation as strong budget numbers because they don't vary much. Holbrook said the information they have now will provide the best estimate to prepare the FY2022 budget but February financials will certainly be reviewed before the budget proposal is made.

Hensley continued the presentation, reviewing expenses, which are under budget. Personnel is overstated by \$2M because of a coronavirus relief payment in December and the overall variance is largely due to vacancies in public safety. She said a good portion of the operating variance is related to repairs and maintenance of our fleet and fuel. Some operating savings may be used to purchase salt, which was not budgeted for this year. The city is ending December in a positive position. Hensley did point out some delays in operating expenses due to COVID-19 and supply chain slowdowns. When comparing current year to prior year, expenses are down by \$16M; coronavirus reimbursements for personnel and the insurance transfer account for \$10M of that total. She concluded FY2021 budgeted to use \$36M in one-time funds but as of this point, they have only accessed \$4M of that total.

F. Brown and Hensley discussed how the city is required to pay certain amount towards liability insurance; actuaries assess the risk for LFUCG and tell the city what the balance of that fund needs to be, then the amount that the fund is overfunded by is transferred back in to balance the budget. It was confirmed \$9.4M of budget stabilization (budgeted for anticipated FY2021 revenue loss) has not been needed yet and the current economic contingency fund balance stands at \$42M. Budget stabilization and economic contingency funds have not been used to balance this budget yet and the same goes for the parks fund. Bledsoe confirmed there is currently \$16.4M in budget stabilization.

Moloney recalled the use of \$6.4M of the economic contingency fund to add a few programs to the FY2021 budget, such as the ESR Program. Hensley clarified that the programs originally budgeted with this money have been covered by revenue exceeding expectations and expenditures being lower than expected. Sally Hamilton mentioned that the budget stabilization fund should be considered as part of the total fund balance.

Kay established that some of the one-time funds budgeted to balance the FY2021 budget will be needed but the amount that will be needed is not known. He asked how the decisions to use these one-time funds (\$36M) to meet expenses will be made and if those will come through the council for approval. Hensley is working with the Law Department on this. She confirmed that the administration anticipates having to pay the next phase-in CERS pension increase (to the state) in FY2022, likely around \$2-3M; the increase was frozen this year. Lamb asked Hensley to share that information once it is confirmed.

Worley and Bledsoe asked for a line-by-line clarification on the use of the \$25M of CARES Act reimbursement funds, outlining where these funds were used for and how it applies to the current budget in the first six months. Worley acknowledged how the relief funds have helped the current financial situation but said there is money that has yet to be spent. Hamilton said the retreat will bring this information to the forefront. Kay expressed concern about the additional \$6.4M put in the economic contingency fund because of the restrictions tied to the fund and that he doesn't believe the intent is to enhance the fund to that level. Moloney concluded that without the CARES Act reimbursement funds, the city would have needed to use one-time funds to stabilize the FY2021 budget, which helps him understand what the FY2022 budget will look like. No action was taken on this item.

December 2020 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	100,626,002	91,549,834	9,076,168	9.9%
OLT - Net Profit	18,694,077	10,941,456	7,752,621	70.9%
Insurance	17,763,957	16,973,108	790,849	4.7%
Franchise Fees	11,772,146	12,379,650	(607,504)	-4.9%
TOTALS	148,856,182	131,844,048	17,012,134	12.9%

December 2020 YTD/September 2019 YTD Current Year Compared to Prior Year:

<u>Revenue Category</u>	<u>Dec-20</u>	<u>Dec-19</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	100,626,002	102,593,681	(1,967,679)	-1.9%
OLT - Net Profit	18,694,077	12,103,815	6,590,262	54.4%
Insurance	17,763,957	17,492,846	271,111	1.5%
Franchise Fees	11,772,146	12,295,334	(523,188)	-4.3%
TOTALS	148,856,182	144,485,676	4,370,507	3.0%

FY2021 – Cash Flow Variance Revenue (Actual to Budget)

<i>For the six months ended December 31, 2020</i>				
	Actuals	Budget	Variance	% Var
<u>Revenue</u>				
Payroll Withholding	100,626,002	91,549,834	9,076,168	9.9%
Net Profit	18,694,077	10,941,456	7,752,621	70.9%
Insurance	17,763,957	16,973,108	790,849	4.7%
Franchise Fees	11,772,146	12,379,650	(607,504)	-4.9%
Other Licenses & Permits	3,755,483	3,832,122	(76,639)	-2.0%
Property Tax Accounts	19,992,196	22,257,550	(2,265,354)	-10.2%
Services	10,265,608	10,990,468	(724,860)	-6.6%
Fines and Forfeitures	101,370	127,000	(25,630)	-20.2%
Intergovernmental Revenue	140,718	181,331	(40,613)	-22.4%
Property Sales	79,184	135,000	(55,816)	-41.3%
Investment Income	61,783	544,926	(483,143)	-88.7%
Other Financing Sources	-	-	-	-
Other Income	1,207,884	1,278,185	(70,301)	-5.5%
Total Revenues	\$184,460,408	\$171,190,630	\$13,269,778	7.8%

FY2021 – Cash Flow Variance Expense (Actual to Budget)

<i>For the six months ended December 31, 2020</i>				
	Actuals	Budget	Variance	% Var
<u>Expense</u>				
Personnel	99,889,014	110,528,985	10,639,971	9.6%
Operating	20,247,997	28,267,286	8,019,289	28.4%
Insurance Expense	(1,830,652)	992,031	2,822,683	284.5%
Debt Service	31,833,838	32,698,753	864,915	2.6%
Partner Agencies	10,919,076	10,347,825	(571,251)	-5.5%
Capital	114,723	206,427	91,704	44.4%
Total Expenses	\$161,173,996	\$183,041,307	\$21,867,311	11.9%
Transfers	1,906,439	1,888,950	(17,489)	-0.6%
Change in Fund Balance	\$21,379,973	(\$13,739,627)	\$35,119,600	

V. Comprehensive Annual Financial Report, FY2020

Jeanna Jones, Strotham & Co., Managing Partner, reviewed the CAFR for FY2020. They issued a clean or unmodified opinion again this year, the highest level opinion LFUCG can receive. She reviewed the general fund activity, which saw a net increase of 23 percent between 2019 and 2020. The general fund balances for FY2020 totaled \$83.91M, which reflects the \$16M net increase. Part of the audit includes required communications to those charged with governance. This included there were no uncorrected misstatements or difficulties were dealing with management. Jones outlined “sensitive” estimates that are significant financial statements that could differ from expected results. Lastly, she highlighted new accounting standards (GASB) that will go into effect in FY2021 and the years following.

F. Brown spoke about the economic contingency fund, which is restrictive on how the funds can be used, being separate from budget stabilization, which is not restricted. They discussed how \$21M from CARES Act reimbursement funds was recorded in FY2020 revenues, which is noted in the report. No action was taken on this item.

VII. Lexington Economic Outlook and Occupational License Tax Forecast FY2021 & FY2022

Mike Clark, Ph.D., Director of the Center for Economic and Business Research at the University of Kentucky first said Lexington’s occupational license tax has been fairly resilient. Gross domestic product (GDP) in Kentucky and the U.S. has not returned to the levels seen before the pandemic. He explained how the quick recovery of unemployment rates in Lexington and Kentucky may be misleading because of people being classified as not in the labor force. Employment in Lexington is down 6,100 from November 2019 to November 2020. Employment is growing but at a slower pace than when businesses were allowed to reopen earlier in the year. Clark added that recovery in Kentucky is slightly better than the rest of the nation. He provided several charts to show employment levels for various job sectors for Lexington-MSA and the percent change in employment from the same month of the prior year, which speaks to how the pandemic hit, how we recovered, and where we stand now. The leisure and hospitality sector shows an increase of 2.5 percent since November 2019 but it’s hard to tell where this job growth is taking place. The percent change for employment and the number of jobs were outlined for each sector, which splits out where jobs are down and how far down they are. Jobs are down in

education and health services and trade, transportation, and utilities. In the private sector employment, hourly earnings have increased significantly.

Clark explained how the pandemic and recession is concentrated in certain sectors and said that much of the job loss could be attributed to lower-paying jobs, which may be a factor as to why occupational fees may be less impacted. He projects payroll tax for FY2021 to total \$203M and \$208.1M in FY2022. Net profit is projected to bounce back in FY2021 totaling \$43.5M and then to “return to trend” in FY2022 at \$44.9M. Clark pointed out net profit revenues vary significantly from year to year. He explained why the degree of uncertainty is high and talked about contributing factors for the recovery, noting that forecasts have a short shelf life.

F. Brown talked about being optimistic for the next two years and about Lexington having a fairly stable economy, particularly if the city can maintain a healthy budget for the next few years. Clark added “cautiously” optimistic. Kay and Clark discussed the most significant difference between Lexington and Lexington-MSA data falls under manufacturing. Clark said there is a strong correlation between the two areas but we do have to be careful when reviewing the data. Kay asked about flattening revenue sources before COVID-19. Clark said employment was growing but slowly, wages were slowing too but the third quarter of FY2020 was going well before the pandemic hit. The forecasts for this year and next year the forecasts are more about recovery versus being heavily based on trends. Kay concluded the city is not in a good situation in terms of the short-term budget.

J. Brown and Clark discussed the leisure and hospitality job sector. It was clarified that construction jobs related to this industry would be counted under the construction sector. Clark said the increase is a little baffling and doesn't fit into the narrative we are hearing but maybe the narrative is incorrect. He reviewed possible explanations for this puzzle but said it's something we need to monitor. No action was taken on this item.

VI. LFUCG Property Assessment Subcommittee – Interim Report

Angelucci provided a quick review of the LFUCG Property Assessment Subcommittee's interim report. The subcommittee first established a set of five criteria: ownership, occupancy, the impact of surplus/disposal on services, short/long term financial impact, cost avoidance, and direct positive cash flow, which was applied to 43 properties. The results of that assessment ranked 14 properties, which the subcommittee then discussed thoroughly. There are five sections of recommendations outlined in the interim report but the focus for this meeting was on Section A. Bledsoe talked about this being a long-term process. The subcommittee is recommending to move forward with three recommendations under Section A, for Arts Place, Morton House/the Nest, and the old Fire Station #2 – to instruct the administration to move forward with conversations regarding the surplus of these properties. Hamilton said they have looked at these three properties and are ready to start those conversations.

J. Brown and Bledsoe reviewed the criteria used to review the properties, which also included community benefit and value to the community. J. Brown said it's important to reiterate the framework used to review these properties because information can be misleading or intimidating if folks don't understand the intent of this work, emphasizing the importance of the council sending the message that we understand the cultural significance and community benefit of these properties.

Motion by Bledsoe to instruct the administration to move forward with the transfer of ownership of (1) Arts Place, under the condition that we explore interest with LexArts first and then other alternatives,

(2) Morton House, which is currently used by the Nest, and (3) the old fire station #2; seconded by Moloney. The motion passed without dissent.

Discussion on the motion included the following. Lamb asked about CDBG funds for the Morton House, which Bledsoe explained the note in the report was suggesting the possibility of using CDBG funds to help bridge the gap to attain ownership of the property. Lamb confirmed the subcommittee took into consideration any funds used to purchase these properties in the past that might restrict their use. Plomin asked about the next steps being “discussions” and if this will include reaching out to these properties. Bledsoe said this would allow the administration to formally have those conversations and to bring a proposal back to the council after that. Moloney suggested the old fire station #2 could go straight to an RFP. Hamilton said they will be discussing with Fire how the station is being used currently to see what displacement might occur if the building is sold. LeGris suggested that before any final decisions are made, an opportunity be provided for community input. The motion passed without dissent.

VII. Revenue Sources

Kay has been exploring the interest in consideration of revenue increases in the upcoming fiscal year and ultimately concluded this is not the time to move this forward. He would like to keep this item in committee to continue whether additional revenue is needed going forward. No action was taken on this item.

A motion was made by Ellinger to adjourn (at 2:58 p.m.); seconded by Kay. The motion passed without dissent.

Materials for the meeting:

<https://lexington.legistar.com/MeetingDetail.aspx?ID=835153&GUID=6D6050A9-8264-40B5-883C-B8B50F0D0AA9&Options=info|&Search>

Video recording of the meeting: http://fucg.granicus.com/MediaPlayer.php?view_id=4&clip_id=5279

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