



## Budget, Finance & Economic Development Committee

February 28, 2023

### Summary and Motions

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Chair J. Brown called the meeting to order at 1:02 p.m. Vice Mayor Dan Wu, and Council Members James Brown, Chuck Ellinger, Hannah LeGris, Liz Sheehan, Preston Worley, Whitney Baxter, Jennifer Reynolds and Kathy Plomin were present.

#### **I. Approval of January 31, 2022 Committee Summary**

A motion by Plomin, seconded by Reynolds, to approve the January 31, 2023, Budget, Finance, and Economic Development Committee Summary, the motion passed without dissent.

#### **II. FY23 Financial Update – February 2023 (For Information Only)**

J. Brown directed the Committee to the February 2023 Monthly Financial update in the packet for information only.

#### **III. Lexington Economic Outlook and Occupational Tax Forecast**

Dr. Michael Clark, Director of the Center for Business and Economic Research (CBER) at the University of Kentucky presented on behalf of this item. Dr. Clark shared historical trends associated with Lexington's employment and wage data, pre- and post-pandemic trends and employment distribution across sectors - education and health services, leisure and hospitality, trade, transportation and utilities, etc.

Dr. Clark evaluated employment sector and wage growth data across all sectors since 1990. In 2015 - 2019 wage growth and employment rates became stagnate. This could be contributed to changes in job industries over time. Manufacturing in Lexington accounts for 6 percent of employment but for 13 percent of employment in the entire state. Distribution of wages differs across sectors. For example, manufacturing accounts for 6 percent of employment, but only 8.7 percent of total wages.

In Lexington, employment and wages are very strong for education and health service sectors. Professional and business services employment has grown but at a much slower pace. There is beginning to be a drop off in employment rates across the country and state. Manufacturing employment is declining in Lexington but not in neighboring counties. Construction wages are increasing and employment is staying relatively steady. Trade/transportation/utilities sector is seeing an improvement in wages over time but a recent decline in employment. Overall, Lexington has strong labor force participation rates across demographics.

Post-pandemic data show Lexington and the multi-state area are on similar trends. Unemployment rates have recovered and are hovering around 3 percent. Number of people employed is above pre-pandemic levels. Non-farm employment is 2.4 percent above pre-pandemic levels. Notably, financial activity employment is 15.2 percent above pre-pandemic employment levels in Lexington. Most sectors have recovered with the exception of manufacturing, construction/mining and professional business services.

In FY22, we experienced significant growth in payroll tax revenue. In a typical year growth would be approximately 3.5 percent. Growth in employment and wages contributed to increased payroll taxes in FY22. The labor force contracted and demand for services increased which resulted in pressure on wages. It is not predicted that this growth will continue. The revenue projection for FY23 is \$250.3 million from payroll taxes and \$63 million from net profits taxes.

The economy has been slowing as a result of the federal reserve interest rate increases. Payroll tax revenue projections will decrease over the next few years but remain higher than past averages. Net profit tax revenue will also even out but should remain slightly above pre-pandemic levels. The timing of the economic slow-down is not certain. Economic shocks are also being experienced across sectors.

#### **IV. Items Referred to Committee**

A motion by Wu, seconded by Sheehan, to remove the Film Commission from items referred, the motion passed without dissent.

#### **V. Adjournment**

A motion by Baxter to Adjourn at 2:09pm, seconded by LeGris, the motion passed without dissent.