Budget, Finance & Economic Development Committee

January 28, 2020

Summary and Motions

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

I. Approval of December 3, 2019, Committee Summary

<u>A motion was made by CM Farmer to approve the December 3, 2019, Budget, Finance & Economic Development Committee summary; seconded by CM Mossotti. The motion passed without dissent.</u>

II. Quarterly Financials Update – December 2019

CM Bledsoe talked about the shift from monthly to quarterly financial updates that the committee agreed to in December. She pointed out this is a trial-run and that feedback is welcomed.

Rusty Cook, Director of the Division of Revenue, first reviewed the unemployment rates for the U.S. at 3.5 percent, Lexington at 2.9, Lexington MSA at 3, and Kentucky at 3.5. He reviewed the economic indicators for the last few months, highlighting positive growth. Under Code Enforcement, Cook said total collections and penalties and interest are high compared to last year. He said the top four revenue categories are nearly flat when comparing budget to actual. He pointed out some catch-up made in December to get insurance closer to flat and attributed franchise fees being below budget due to the timing of recent rate increases and the mild winter. He showed positive growth in the top four revenue sources when comparing current year to prior year and explained some of the contributing factors. He showed charts that outline payroll withholding and net profits, actual versus budget, and said this helps show the ups and downs of payroll withholding and the benefit of quarterly financial reporting. He also pointed out the spike in net profit in the fourth quarter, which is because of tax day, April 15. He said the other spikes are because of businesses making quarterly payments.

CM Evans asked for clarification on the charts on pages 17 and 18. Cook explained the blue bars are actual numbers, year to date, and the orange line is what was budgeted for the fiscal year. CM Reynolds asked about the negative variance under insurance. Cook explained it could be attributed to the budget spread or that we didn't collect the revenue that was projected and noted these payments come in quarterly so that could also be a factor. He said we are up, year over year, which is good, noting that this revenue source stays fairly consistent throughout the year.

Melissa Lueker, Director of the Division of Budgeting, first explained how they expect the variance for other licenses and permits to go down as the year finishes out. She said services continues to do well for LFUCG and highlighted the less than 1 percent variance in personnel but pointed out we are over budget in overtime. She said $1 million of the total operating expense variance is attributed to software maintenance, some of which is underway. The partner agency variance is because of a one-month delay in payment to the library, which they intend to correct for the next payment. She said the overall change in fund balance is $8.6 million. She reviewed the bumps in funds budgeted for personnel, pointing out November and May have three pay periods and payouts are expected January, as well as operating trends. Lastly, she showed a chart of FY2020 budgeted revenues versus expenses to outline the ebbs and flows and how that plays out throughout the year. <u>No further comment or action was taken on this item.</u>

December 2019 YTD Actual Compared to Adopted Budget:

Revenue Category	Actual	Budget	Variance	% Var
OLT- Employee Withholding	102,593,681	102,716,099	(122,418)	-0.1%
OLT - Net Profit	12,103,815	11,637,812	466,003	4.0%
Insurance	17,492,846	17,568,043	(75,198)	-0.4%
Franchise Fees	12,295,334	12,602,898	(307,564)	-2.4%
TOTALS	144,485,675	144,524,853	(39,177)	0.0%

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

Revenue Category	Dec '19 YTD	Dec '18 YTD	Variance	% Var
OLT- Employee Withholding	102,593,681	100,412,562	2,181,119	2.2%
OLT - Net Profit	12,103,815	11,788,664	315,151	2.7%
Insurance	17,492,846	16,440,408	1,052,437	6.4%
Franchise Fees	12,295,334	11,542,955	752,378	6.5%
TOTALS	144,485,675	140,184,590	4,301,085	3.1%

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

For the six months ended December 31, 2019				
	Actuals	**Budget**	**Variance**	**% Var**
Revenue				
Payroll Withholding	**102,593,681**	**102,716,099**	**(122,418)**	**-0.1%**
Net Profit	**12,103,815**	**11,637,812**	**466,003**	**4.0%**
Insurance	**17,492,846**	**17,568,043**	**(75,198)**	**-0.4%**
Franchise Fees	**12,295,334**	**12,602,898**	**(307,564)**	**-2.4%**
Other Licenses & Permits	**3,907,487**	**3,340,525**	**566,962**	**17.0%**
Property Tax Accounts	**21,670,202**	**21,514,542**	**155,660**	**0.7%**
Services	**12,456,288**	**11,240,247**	**1,216,041**	**10.8%**
Fines and Forfeitures	**115,200**	**130,100**	**(14,900)**	**-11.5%**
Intergovernmental Revenue	**223,985**	**162,376**	**61,609**	**37.9%**
Property Sales	**64,444**	**75,000**	**(10,556)**	**-14.1%**
Investment Income	**611,674**	**476,990**	**134,684**	**28.2%**
Other Income	**2,085,594**	**1,418,309**	**667,285**	**47.0%**
Total Revenues	**$185,620,549**	**$182,882,941**	**$2,737,608**	**1.5%**

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

For the six months ended December 31, 2019	Actuals	Budget	Variance	% Var
<u>Expense</u>				
Personnel	113,081,745	114,009,878	928,133	0.8%
Operating	22,339,256	26,318,956	3,979,699	15.1%
Insurance Expense	954,723	968,725	14,002	1.4%
Debt Service	31,126,865	31,126,865	0	-
Partner Agencies	9,593,027	10,888,927	1,295,900	11.9%
Capital	263,819	260,322	(3,496)	-1.3%
Total Expenses	$177,359,435	$183,573,674	$6,214,239	3.4%
Transfers	2,795,304	2,527,386	(267,918)	-7.2%
Change in Fund Balance	$5,465,810	($3,218,119)	$8,683,929	

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%	2.9%	2.8%	2.9%	N/A
Quarterly Fayette County	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
Employment	2018	-	-	191,518	-	-	193,808	-	-	194,593	-	-	194,528
	2019	-	-	191,509	-	-	196,409	-	-	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	1,163	1,232	765
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	277	221	171
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	1,180	1,169	1,002	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	16	11	11

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
October	450	150	5,457	2,431	68,296	88,286	74,203	90,867
November	175	225	2,387	1,247	89,632	28,552	92,194	30,024
December	75	375	6,448	1,548	75,543	33,737	82,065	35,660
<u>Totals</u>	2,050	1,725	32,337	12,808	472,604	259,004	506,992	273,537

III. Comprehensive Annual Financial Report 2019 (CAFR)

Bill Meyer, Managing Partner with Strothman and Company, first explained their auditor opinion is an unmodified opinion or more commonly understood as a clean audit opinion. He provided a snapshot of the general fund activity, showing a positive change and pointed out how, operationally, the change breaks even. He said the general fund balances, or equity of the fund, are fairly consistent from year to year and all are positive. He talked about a new accounting standard for fiduciary activities that affected a small part of our accounting, under the prisoner's account and sanitary sewer system net position. Under required communication, he reported no uncorrected misstatements and no difficulties in dealing with management. Also required, Meyer pointed out a list of estimates used by LFUCG, which they audit to determine if the estimates are reasonable; this includes compensated absences, net pension liability, net OPED liability, and a few others. Lastly, he pointed out some anticipated changes to the accounting standards that he expects to have little impact on LFUCG.

CM Moloney asked about the CARF being reported in October in the past and more recently receiving the audit in January. Meyer explained that the fund balance is typically communicated to the council in October through the commissioner of finance. He said with his experience with LFUCG, the audit is traditionally done in November and pointed out how LFUCG's audit is done quicker than other similar-sized cities and the state. Moloney talked about seeing these numbers earlier as we are approaching another budget. Meyer said the audit opinion has always been signed off about this time of year.

Bledsoe introduced the first-ever *Public Financial Annual Report* that is easy to read and makes our financials more accessible to our citizens. She said it is not the budget, it is a report of our finances. She thanked the finance team for creating the document, which will be available on our website.

IV. Lexington Economic Outlook and Occupational License Tax Forecasts FY 2020 & 2021

Mike Clark, Associate Director of the Center for Business and Economic Research at the University of Kentucky, first talked about gross domestic product, pointing out Lexington was growing at a faster rate than the nation around 2015. He said GDP growth, which is reported quarterly, is starting to slow across the U.S. and Kentucky and that local indicators reflect the same for Lexington. He showed a global perspective of unemployment rates and explained how Lexington's rate jumps around because of seasonal employment (seasonal employment is not taken into account in state and national data). He said Kentucky got down to 4 percent unemployment last year but is starting to uptick again. He explained how unemployment can change for good and bad reasons; he said more and more people are indicating that they are working but the rate of people coming into the labor force is faster or more than the number of people who are getting jobs, which indicates we are under a tighter labor force. He skipped to a chart on employment growth that is based on jobs, not the number of people working, because the data runs through November. He said the Lexington, Louisville and Cincinnati/Nothern Kentucky MSAs all trend closely with the state by looking at the percent change when compared to the previous year. He pointed out a few years where Lexington's economy was outperforming the other MSAs, how it declined around 2017, and the most recent increase in 2019. Similarly with the MSAs, he showed hourly earnings picking up.

VM Kay asked if Clark was referring to residents and their earnings or to jobs. Clark explained it is jobs and where the jobs occur, which may apply to residents or commuters (this applies to pages 13 and 14). Clark added that the unemployment rate is based on the individual person and where they live.

Clark explained how unemployment insurance data applies more specifically to Fayette County but pointed out how it excludes individuals who are self-employed, agricultural workers, and severance pay.

He said unemployment insurance data ties closely with Lexington's payroll tax, covering about 80 percent of the tax base. He reviewed the private employment trends for Lexington's employment and average weekly wages, emphasizing the continued increase for total wages. He outlined the same data broken down by sector, highlighting: trade, transportation, and utilities; professional and business services; and manufacturing. He outlined his forecasts for employment and total wages for Lexington that indicates a small improvement, which he described as the underlying economy that ties into the occupational tax forecast. He pointed out unemployment insurance data correlates closely with total wages data and payroll tax revenue highly correlates with total wages. He estimates payroll tax revenue will grow 2.5 percent in FY2020 and 2.8 percent in FY2021 and for net profit tax revenue to grow 1.8 percent in FY2020 and 2.9 percent in FY2021. He reviewed sources of uncertainty including global economic growth, trade policies, a contraction in national manufacturing, and employment growth in the Lexington-MSA.

Kay asked about the sources of uncertainty focusing on the state and if Clark could elaborate on Lexington-Fayette specifically. Clark said he believes these contributing factors will still affect Lexington but our economy is fairly resilient, which he believes is partly because of a strong healthcare sector. He said a recession on the national level will hit Lexington but it tends to hit later and, often times, not as deep as the rest of the state. He said all these factors matter and impact Lexington. They discussed the assumption that Lexington will experience the factors of uncertainty less than the state or nation. Clark said the global growth may not be as big of an impact for Lexington; he talked about NAFTA and said he doesn't know enough about trade in Lexington yet.

CM Ellinger referenced the chart on page six and concluded Lexington has less private employment jobs with a tighter labor market and that more people are looking for fewer jobs which helps drive wages up. He added that employment growth attributes to revenue increasing to 2.6 percent. Clark explained he expects employment to grow some but most of the growth will be from increases in average weekly wages, which could be due to people working more hours, multiple jobs, or making more. This is because we haven't seen growth in private sector jobs. They discussed the recent past decline in employment growth and Clark explained he expects the Lexington MSA to grow at 2 percent next year, which he predicts will help Lexington's employment numbers so we will see the number tick up slightly.

Moloney talked about manufacturing jobs in the '70s and 80's with businesses such as IBM, which he thinks was replaced by the medical field. He said everything gets recycled back and that manufacturing will come back into the picture. He asked about the need to plan for a new shift in industries. When evaluating the healthcare sector, Clark explained he looks to population growth, adding that people are showing a willingness to pay for more medical services so ultimately he expects the healthcare sector to continue to increase over time. He stressed the importance of a diverse economy; he said Lexington was relatively diverse in the '70s and '80s and did fairly well to weather the loss in manufacturing at that time; he compared less diverse economies, such as West Virginia, who essentially suffered a second recession.

Farmer referenced the chart on page 16 and asked about the instances when payroll tax revenue and total wages intersect on the graph. Clark explained that the unemployment insurance data doesn't include self-employed workers, agricultural workers, or severance pay, adding that they believe the divergence, for example in 2007 and 2017, is caused by instances such as a large employer going out of business.

Evans referenced the chart on page six and talked about wage growth including people who are working more than one job. She prefaced her next question as a task the budget analyst position could help with, asking how to see a more accurate picture of Lexington's citizens and how many jobs people have to work to support their household. Clark provided a hypothetical example of an employee working full-time during the week and a second part-time job on the weekend, explaining that person would show up twice on the chart. He said there is data available and the analysis is doable, in theory, but it is reliant on the census and households.

CM Lamb talked about a medical supply company in Cincinnati that said they can't expand into Kentucky because of e-commerce. She asked if they are researching e-commerce and how it will affect our occupational license tax. Clark said he is not aware of anyone doing any research on this topic for this area.

Bledsoe spoke about the data and trends Clark provided for the various employment sectors, something that was of interest to the committee at the last presentation, and how she appreciated the follow up.

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

V. Jobs Fund

Wes Holbrook, Administrative Officer in the Department of Finance, explained this program started in 2013. He reviewed the makeup of the Economic Development Investment Board and who is currently serving on the board. He explained the incentives available through the program, which include grants, forgivable loans, and traditional loans. He highlighted the eligibility requirements, which includes a presence in Lexington, up-to-date with all taxes, and an average wage of $22 per hour, which is adjusted and approved by the board annually. He reviewed the overall impact of the program, highlighting that the program has created more than five times new payroll than the incentives that have been disbursed and that $312,490 is created annually in payroll tax. He pointed out principal and penalty payments and said the program is moving away from grants and more towards loans. For 2020 plans, Holbrook talked about the benefit of site visits and conducting an in-depth analysis of the amount of revenue the participating companies have generated. He also said they have plans to revise the board ordinance and expand the board responsibilities.

Taylor Bright, President of TEC Biosciences and a grant recipient, spoke about the grant they received for a piece of machinery that had an unintended benefit for local farmers in the hemp industry, which launched into the creation of three additional businesses in the hemp industry as a result. Michael Bayer, President of Fusioncorps, a loan recipient, and board member, spoke about developing a new piece of technology and the period of time before it can produce revenue. He pointing out how the Jobs Fund helped them immediately add new jobs to get through the "burn-rate" period.

Lamb asked about the 226 jobs that have been created from the program. Holbrook said that is the total jobs created thus far based on their annual reporting and that he expects that number to grow. Lamb asked if the additional jobs created beyond what was originally promised through the program award are being tracked. Holbrook said they are as long as it falls within the same company. She confirmed the total companies served by the program are 24.

Evans asked about the spin-off jobs, where they are located, and if they are being tracked. Holbrook said the reporting is tied to the companies funded by the program and their W-2 employees. She asked if the 14 additional jobs created through TEC Biosciences are in Lexington; Bright said the 14 he mentioned are in Lexington but there are more that are outside of the city. She emphasized the importance of job growth in Lexington and the need to know what job growth is taking place outside of the city. Holbrook said the in-depth analysis they plan to initiate in 2020 should evaluate some of those details.

CM Plomin asked about the outreach for the program and whether there is an annual application period for funds. Holbrook said this program is used as an incentive that the city's partner agencies, such as Commerce Lexington who is outsourced to do our business expansion and retention, can utilize when assisting businesses. They discussed the process for businesses to apply for funds that include a pre-meeting, the application that is sent to LFUCG, the staff's recommendation to approve the application, or not, which is directed to the board, and if the board approves, the contract is negotiated.

Reynolds asked about the funds available for the program, which Holbrook said there is about $500,000 currently available and no additional funds were allocated in the current fiscal year. He pointed out the fund now has principal and interest rolling into it. They discussed how there are enough funds to fully award a few new applications but that would exhaust the fund quickly. They established the program's policies and guidelines are available on the website but not the application.

Moloney and Holbrook discussed the return on investment of $1 that earns back $5.28. Moloney asked if they will ask for funds in the FY2021 budget and talked about the possibility to bond additional funds for this program. Holbrook said the city typically issues tax-exempt bonds, which requires you to get something in return; for example, under PDR you are purchasing an easement. He explained you are not purchasing anything through the Jobs Fund so it would not qualify for tax-exempt bonds. He added that the city would have to issue bonds that we typically don't for other programs.

Bledsoe spoke about our economic development strategy and incentives. She said it is a testimony of the program and the awarded companies to create nearly $14 million in new payroll from $3 million awarded.

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

VI. Items Referred to Committee

Kay said the *Appropriate Types of Economic Development (from E.D. ZOTA)* item was already removed from the committee.

<u>A motion by Bledsoe to remove the *Global Headquarters Initiative* item from the committee; seconded by Mossotti. The motion passed without dissent.</u>

<u>A motion by Bledsoe to remove the *Potential Budget Review Process* item from the committee; seconded by Evans. The motion passed without dissent.</u>

<u>A motion by Evans to remove the *Career Academies by Business Education Network and FCPS* item from the committee; seconded by Ellinger. The motion passed without dissent.</u>

<u>A motion by Bledsoe to remove the items related to annual updates from the city's economic development partners from the committee; seconded by Evans. The motion passed without dissent.</u>

<u>A motion was made by Ellinger to adjourn at 2:40 p.m.; seconded by Farmer. The motion passed without dissent.</u>