



## Budget, Finance & Economic Development Committee

March 16, 2021

### Summary and Motions

---

Committee chair, Council Member Amanda Bledsoe, called the meeting to order at 1:01 p.m. Committee members Vice Mayor Steve Kay and Council Members Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Preston Worley, Fred Brown, and Kathy Plomin were present. Council Member Josh McCurn was absent.

Note: Agenda item (IV.) Industrial Revenue Bond Fee Schedule Amendments was reported to the council on March 16, 2021, at Work Session and agenda item (V.) Proposals for use of Coronavirus Relief Funds and Fund Balance – Small Business Economic Stimulus Program were reported to the council on Tuesday, April 6, 2021, at Work Session.

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."

Motion by Ellinger to move agenda item IV to be the first item for discussion; seconded by Lamb. The motion passed without dissent. (J. Brown was absent for this vote.)

#### **IV. Industrial Revenue Bond Fee Schedule Amendments**

John Merchant, Partner at Dinsmore and Shohl LLP, explained how LFUCG is the conduit issuer for 501c3 borrowers who are coming to the government to issue bonds. He said the city's fees to do this have always been high. Merchant looked at other conduit issuers in the area to make LFUCG's fees in line with other conduit issuers. The draft ordinance sets the parameters for the issuer's fee, outlining \$2,500 for the application fee and 10 basis points for the issuance fee (with a minimum of \$10,000 and a maximum of \$50,000). These bonds are not limited to 501c3s, it applies to any entity issuing bonds under KRS 103.200 through 103.285 but it is most commonly used by 501c3s.

Lamb mentioned how there used to be a lot of these types of transactions for the city; she hopes this amendment will spark more. J. Brown and Merchant discussed not having an application fee if there is a significant community benefit. Merchant said lots of municipalities charge a fee but some don't, confirming it's possible to waive the fee. The application fees currently go towards other economic development efforts such as the industrial authority.

Motion by Lamb to approve the ordinance [amending the industrial revenue bond fee schedule] in the packet; seconded by J. Brown. The motion passed without dissent. (Plomin was absent for this vote.)

Motion by Lamb to report this out today, March 16, 2021, at Work Session; seconded by Kay. The motion passed without dissent. (Plomin was absent for this vote.)

#### **I. Approval of February 23, 2021 Committee Summary**

Motion by Kay to approve the February 23, 2021, Budget, Finance, and Economic Development Committee summary; seconded by Ellinger. The motion passed without dissent. (Plomin was absent for this vote.)

## II. Monthly Financial Update – February 2021

The monthly financial report is for information only; it showed net profit and payroll withholding continuing to exceed expectations and predictions. Bledsoe said the next quarterly financial update will take place at the Budget Committee of the Whole (COW) on April 27, 2021. No action was taken on this item.

### February 2021 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	140,838,311	125,339,487	15,498,824	12.4%
OLT - Net Profit	19,179,813	13,225,493	5,954,320	45.0%
Insurance	26,444,306	25,458,940	985,366	3.9%
Franchise Fees	16,777,171	17,444,875	(667,704)	-3.8%
<b>TOTALS</b>	<b>203,239,601</b>	<b>181,468,795</b>	<b>21,770,806</b>	<b>12.0%</b>

### February 2021 YTD/February 2020 YTD Current Year Compared to Prior Year:

<u>Revenue Category</u>	<u>Feb-21</u>	<u>Feb-20</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	140,838,311	140,895,782	(57,471)	0.0%
OLT - Net Profit	19,179,813	14,480,163	4,699,650	32.5%
Insurance	26,444,306	26,199,513	244,793	0.9%
Franchise Fees	16,777,171	17,254,686	(477,515)	-2.8%
<b>TOTALS</b>	<b>203,239,601</b>	<b>198,830,144</b>	<b>4,409,457</b>	<b>2.2%</b>

### FY2021 – Cash Flow Variance Revenue (Actual to Budget)

<u>For the eight months ended February 28, 2021</u>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
<b>Revenue</b>	-	-	-	-
<u>Payroll Withholding</u>	<u>140,838,311</u>	<u>125,339,487</u>	<u>15,498,824</u>	<u>12.4%</u>
<u>Net Profit</u>	<u>19,179,813</u>	<u>13,225,493</u>	<u>5,954,320</u>	<u>45.0%</u>
<u>Insurance</u>	<u>26,444,306</u>	<u>25,458,940</u>	<u>985,366</u>	<u>3.9%</u>
<u>Franchise Fees</u>	<u>16,777,171</u>	<u>17,444,875</u>	<u>(667,704)</u>	<u>-3.8%</u>
<u>Other Licenses &amp; Permits</u>	<u>4,398,311</u>	<u>4,352,233</u>	<u>46,078</u>	<u>1.1%</u>
<u>Property Tax Accounts</u>	<u>24,867,537</u>	<u>24,833,673</u>	<u>33,864</u>	<u>0.1%</u>
<u>Services</u>	<u>14,848,863</u>	<u>15,277,890</u>	<u>(429,027)</u>	<u>-2.8%</u>
<u>Fines and Forfeitures</u>	<u>140,520</u>	<u>168,667</u>	<u>(28,147)</u>	<u>-16.7%</u>
<u>Intergovernmental Revenue</u>	<u>173,526</u>	<u>313,259</u>	<u>(139,733)</u>	<u>-44.6%</u>
<u>Property Sales</u>	<u>104,249</u>	<u>190,000</u>	<u>(85,751)</u>	<u>-45.1%</u>
<u>Investment Income</u>	<u>65,544</u>	<u>712,068</u>	<u>(646,524)</u>	<u>-90.8%</u>
<u>Other Income</u>	<u>1,603,074</u>	<u>1,652,436</u>	<u>(49,362)</u>	<u>-3.0%</u>
<b>Total Revenues</b>	<b>\$249,441,225</b>	<b>\$228,969,021</b>	<b>\$20,472,204</b>	<b>8.9%</b>

**FY2021 – Cash Flow Variance Expense (Actual to Budget)**

<i>For the eight months ended February 28, 2021</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Expense</u></b>				
Personnel	140,522,242	147,641,616	7,119,374	4.8%
Operating	26,241,015	37,543,781	11,302,766	30.1%
Insurance Expense	(1,830,652)	992,069	2,822,721	284.5%
Debt Service	36,908,254	37,933,169	1,024,915	2.7%
Partner Agencies	13,107,395	13,839,847	732,452	5.3%
Capital	117,563	341,554	223,991	65.6%
<b>Total Expenses</b>	<b>\$215,065,817</b>	<b>\$238,292,036</b>	<b>\$23,226,219</b>	<b>9.7%</b>
<b>Transfers</b>	<b>3,011,705</b>	<b>2,795,350</b>	<b>(216,355)</b>	<b>-5.4%</b>
<b>Change in Fund Balance</b>	<b>\$31,363,703</b>	<b>(\$12,118,365)</b>	<b>\$43,482,068</b>	

**III. Economic Development Partnerships Update**

**a. Euphrates International Investment Co.**

Euphrates was awarded new business development under the city’s Economic Development Partnerships Services RFP. President Erran Persley first talked about his background in foreign and domestic investments. They currently have 11 projects in the pipeline worth about \$1.2 billion in various sectors, of which four are fully operational. They plan to outline in their final report why businesses from outside the state are choosing Lexington. Three major project prospects they are working on are Endless Frontier, Big Horse, and Tanker. Persley described Endless Frontier as a game-changer if it happens. It’s supported by legislation proposed by U.S. Senator Chuck Schumer that calls for \$100 billion to be spent over five years, including 10 regional innovation technology hubs across the U.S. Lexington was ranked fourth as a potential site for one of those centers. A committee will submit a proposal once it becomes law. Persley wants Lexington to be in the top 25 cities for innovation technology, which would create high-paying jobs. Euphrates is working with small and minority businesses, assisting businesses with financing and other items such as business plans to help them be successful. The “Grow In Lexington” Platform is being created now through a public-private partnership with Euphrates and LFUCG to help small, women, minority and veteran-owned businesses enter new markets, both domestically and around the world. This should be ready for testing by the end of the month.

Bledsoe asked if the city has enough land and buildings, which Persley believes the supply is sufficient for the projects they have in the pipeline. He added that Lexington has a low supply of land, coupled with high price pressures. Lamb established that Persley plans to work with Commerce Lexington and LFUCG’s minority business liaison to bring businesses to the Grow In Lexington Platform. The challenge will be getting small businesses on the platform. The current platform has about 1.2M users (businesses can have multiple users) and there is no limit for the number of users in Lexington.

Moloney asked about the timing of developing the 200 acres and the projects that are looking at that site. Persley explained the benefit of finding a client before the land is developed to help guide the development process. Moloney asked about helping people who want to start new businesses, which

Euphrates does, for example, through developing business plans and acquiring financing. Most of the projects on page 27 of the packet are start-ups.

J. Brown wants to make sure we have resources for small and minority-owned businesses, including financing and building capacity in regards to Lexington's business needs; he asked about Euphrates' strategies. Persley explained how outreach has been challenging this year and their plans to host webinars through the new platform in coordination with the city's minority business liaison. They discussed how Commerce Lexington already monitors what commercial properties are available so Persley coordinates with them and connects the information to Zoom Prospector (at the cabinet in Frankfort) to make sure folks at the state level can see what's available. He mentioned the new study on Lexington's boundaries and how Lexington characterizes properties is something we have to work on. J. Brown said the city is hinging a lot of the community's future on Coldstream, which is not shovel-ready, plus the city may have to absorb the infrastructure costs. Persley said it is too early to know how many jobs these major projects might bring to Lexington.

#### **b. Commerce Lexington, Inc.**

Commerce Lexington was awarded portions of the city's Economic Development Partnerships Services RFP related to business retention and expansion, and talent and workforce. An addendum was also added to their PSA for minority business development. Executive vice president, Gina Greathouse, explained how Commerce Lexington's primary funding source is their private sector capital campaign, done every five years. They focus on regional economic development and for Lexington, their goal is to increase the per capita income and city tax dollars and promote greater investment. The Business Education Network is also part of their PSA. The director recently joined the University of Kentucky's Economic Development Collaboratives Talent Subcommittee and is conducting a research project to inform their talent strategy.

Per the PSA addendum, Commerce Lexington is working to expand the minority business accelerator program by five to seven minority business enterprises by December 31, 2021. They are also implementing a prime contractor needs and alignment project to increase MBE capacity in trade. They have successfully coordinated 62 virtual company visits with various economic development and higher education representatives. Greathouse pointed out some trends they are seeing such as that workforce is still an issue, plus the competitive reality of land with infrastructure in place. She provided a list of Lexington businesses that relocated regionally and 18 other companies that are looking to expand and will consider moving outside of Lexington, which could present significant job loss for the city. She reviewed Commerce Lexington's contribution to the city by job creation, city revenue generation, and capital investment.

Lamb and Greathouse discussed how wages are tracked, which Commerce Lexington can provide averages for. They are also tracking the impact of COVID-19 and capital investment. Lamb mentioned the unintended consequences of the stimulus checks on the workforce and established that Commerce Lexington hasn't been able to do internships because of the pandemic.

Plomin pointed out recognition of the city of Lexington's economic development efforts in *Site Selection* magazine. Greathouse explained how the regional focus (Lexington's surrounding counties plus Frankfort and Mount Sterling) helps increase the workforce supply since Lexington is considered a small metro. By including the surrounding counties, there is a population of 700,000 people within 30 miles. They discussed the availability of vacant buildings and the limited availability of manufacturing and warehouse space. Greathouse expects the 200 acres to go quickly; she mentioned the need to plan

beyond that development and the strategies used to develop the Bluegrass Business Park over 25 years (no small investments).

Moloney and Greathouse discussed companies whose first choice was Lexington but went to neighboring counties; price is a big factor. Moloney said he expects expenses to exceed revenues eventually and “jobs” need to be the number one strategy to combat that. He and Tyrone Tyra, Commerce Lexington’s Senior Vice President, discussed his one-on-one engagement with minority businesses, with a focus on business development and access to capital with the Access Loan Program. Tyra meets with 100-150 people per year and that didn’t change with the pandemic.

J. Brown said Commerce Lexington has been a beacon during the pandemic. J. Brown said bonding capacity holds some minority businesses back. He and Tyra talked about having a conversation with the city’s minority liaison about this. Commerce Lexington currently refers people with bonding issues to the Small Business Administration bonding program.

Kay asked about understanding the impact of a business locating in Lexington versus a surrounding county, in terms of revenue but also the induced economic activity. Commerce Lexington has an economic impact model that shows the impact of a business and where they locate. Greathouse said there is a big significance in the economic impact of a business locating in Lexington versus outside and she could run an example to show that. Kay talked about regional development and how that should affect the city’s recruitment strategies. Persley responded to an earlier question by Moloney and said the 50-acre plot did not work for the interested company, Tanker; they are interested in the future 200-acre land.

**c. EHI Consultants & Urban League of Lexington-Fayette Co.**

In partnership, the Urban League and EHI Consultants received the opportunity zone portion of the city’s Economic Development Partnerships Services RFP. Ed Holmes, President of EHI, first explained how opportunity zones create a mechanism for investors to invest in neighborhoods. Lexington has seven opportunity zones, primarily in the urban core and around New Circle and Red Mile roads. The agencies are charged with analyzing this urban economic development tool to see how we can create opportunities. They are evaluating each census tract (or zone), drilling into demographics and land use. Holmes showed an example of their analysis of Census Tract 13, which includes reviewing vacant land, infill and redevelopment options, and the existing assets that may encourage an investor to get involved. They are also developing a marketing strategy and coordinating with opportunity zone fund managers, identifying what managers are out there.

Holmes mentioned the Neighborhoods in Transition Task Force’s recommendations, such as a resource guide and for areas where resources should be focused to prevent involuntary displacement. Urban League and EHI will produce a report identifying the funds that could be invested into the community, largely through tax credits, which will be market-driven. He spoke about the effort to coordinate with neighborhood associations and community groups. Opportunity zones are good through 2026. Holmes said this is another tool to create or enhance development in our neighborhoods.

J. Brown commended the effort to incorporate work from the Neighborhoods in Transition Task Force into the RFP; adding that Urban League and EHI have local relationships in the community and understand the dynamics of these neighborhoods. He said this will help address issues around new investment while looking to prevent displacement but encourage economic opportunities for the business in these neighborhoods. The question is how to connect the assets and existing resources with

investors who can work with the neighborhoods without a negative impact. Louisville had one successful opportunity zone project; they are difficult to implement and developers often have other options. Reversely, this could provide incentives for investors, for example around the Davis Park neighborhood.

Moloney mentioned the unique partnership between the Hope Center and the Lexington Housing Authority and their ability to use tax credits quickly as possible resource. Holmes' team is trying to identify opportunities and resources for these areas that could significantly benefit developers. They discussed unemployment, which has been as high as 15-17 percent in the opportunity zones. The unemployment rate in Lexington's urban areas are often more than double the rate for the city.

## **V. Proposals for use of Coronavirus Relief Funds and Fund Balance:**

### **a. Small Business Economic Stimulus Program**

Christina Baker, Legislative Aide for Council District 10, presented a small business stimulus package for 2021. The first Small Business Economic Stimulus Program distributed \$2.5M July through September of last year. She showed the breakdown of employment sectors that highlights which sectors have been most affected by the pandemic. The proposal is for \$5M for a small business economic stimulus forgivable loan program, designed to address the needs of the economy right now. Baker said the total budget could be split across two waves of funding from the new federal relief bill. She explained that using a forgivable loan, rather than a reimbursement grant, helps target those in need while also emphasizing the economic development aspect of the program, which focuses on employment and payroll.

Baker reviewed major components of the program, which are mostly the same as the first program, including a maximum award of \$25,000. Commerce Lexington's Access Loan Committee will review the applications. The program will include a goal to disperse 50 percent of funds to minority and women-owned businesses. Businesses will be asked to submit a proposal outlining how the funds will maintain or increase payroll and or employment, which will establish the benchmark for loan forgiveness. Commerce Lexington will receive the applications directly to help eliminate some confusion that folks experienced in the first program. Loan forgiveness would be based on meeting employment/payroll goals by January 1, 2022. The proposal includes an increased administrative fee of 7.5 percent for Commerce Lexington to administer the program.

Worley talked about different scenarios in which these funds could benefit businesses and advocated that all of the support the program offers is good for the city, by way of increased revenue and individual spending. Plomin and Worley discussed using a sliding scale for the amount of funds that are forgiven if the business's goals are not attained, as they do not want the program to be punitive. The loan program speaks to economic development as opposed to just keeping the doors open. Plomin cautioned against an "all or nothing" mentality for loan forgiveness because it could take a business down.

Ellinger and Worley discussed the idea of gaining general agreement of the program on April 6, 2021, and potentially begin receiving applications in about one month. Federal funding is expected in the next couple of months so Worley suggested using budget stabilization funds for the first wave of funding with the promise to reimburse budget stabilization once federal funds are received. The Access Loan Committee will use a first come first serve process; applications would be received during a specific window and then the reviewing would begin. Ellinger confirmed Commerce Lexington will administer the program with an increased fee, which is based on the time needed to execute the 2020 program.

Worley emphasized Commerce Lexington's commitment to the program; they funded the last application that came in 2020 with their administrative fee when funds had run out.

Kay expressed concerns about the unknowns of the program such as modifying first come first serve and criteria such as balancing proposals that maintain jobs versus those increase jobs, as well as recapturing funds. He would like to know what expenses were incurred last time because he doesn't understand the increased fee, which would total \$350,000 of the \$5M program. Bledsoe compared the first program, which had multiple people and entities answering the phone, and said the increased fee would allow them to hire additional staff, be the main contact, and shepherd the administration of the program. She talked about the idea of moving forward with the first wave and holding the second wave for another date.

Lamb would like to see the resolution for the program, as well as how much funds are in budget stabilization currently. Tyra explained how the 2020 program took 100 percent of his time, 12-15 hours per day processing forms and calling businesses. Under the new program, they would also assist with loan clawbacks if goals aren't met. F. Brown is uneasy about expanding the program to \$5M and questioned how many businesses participated last time with how many "we're still looking at."

Moloney asked how much federal relief funds the city anticipates and how \$5M was determined. Worley explained it would double the program but it is based on the need, plus the city could get significantly more relief funds this time. Moloney advocated for the increased administrative fee, comparing it to 10 percent fees tied to other federal relief grants that the city manages, a standard with federal funds.

Motion by J. Brown to move this item forward to Work Session on April 6, 2021; seconded by Ellinger. The motion passed without dissent.

Bledsoe said a resolution will be prepared for review at Work Session, on April 6, 2021.

#### **VI. Items Referred to Committee**

No action was taken on this item.

Motion by Lamb to adjourn (at 3:11 p.m.); seconded by Ellinger. The motion passed without dissent.

Materials for the meeting:

<https://lexington.legistar.com/MeetingDetail.aspx?ID=845895&GUID=727ED466-62E7-4989-809B-89F34BF31D4D&Options=info|&Search>

Video recording of the meeting: [http://fucg.granicus.com/MediaPlayer.php?view\\_id=4&clip\\_id=5318](http://fucg.granicus.com/MediaPlayer.php?view_id=4&clip_id=5318)

HBA 3/24/21