Budget, Finance & Economic Development

November 29, 2016

Summary and Motions

Chair Stinnett called the meeting to order at 1:01 p.m. All committee members were in attendance.

I. Approval of September 27, 2016 Committee Summary

<u>A motion was made by Farmer to amend the September 27, 2016 Budget, Finance & Economic Development Committee Summary & Motions to add "continue discussion at next meeting" after item II, seconded by Plomin. The motion passed without dissent.</u>

<u>A motion was made by Farmer to approve the Budget, Finance & Economic Development Committee Agenda, seconded by Mossotti. The motion passed without dissent.</u>

II. October Financials General Fund

Bill O'Mara, Commissioner of Finance, presented the October Financials. He reviewed the comparative unemployment rates and economic indicators. He also gave a presentation on Code Enforcement Nuisance Abatement and Lien Collections.

Rusty Cook, Director of Revenue, presented the Big Four Revenue categories.

Melissa Lueker, Director of Budgeting, presented the other Revenue categories and expenditures for October.

F. Brown asked about the variance in Revenues for Insurance of $2.4 million and what the cause of that was. Cook responded that this was a timing issue. He said that the due date on those returns is October, but some of the money comes in before that and some comes in after. He added that you need to look at October and November on payroll withholding and insurance together to get a true read on where it really is. F. Brown asked if this was monthly revenue and Cook responded that it was quarterly, but they normally get most of it in the first 2 months of the quarter.

Moloney asked if we had a surplus of $3 million. Lueker said no; that isn't a surplus, it is a variance in revenue. She said we do not have a surplus because the fiscal year is not over, but right now we have a positive change in net position of $3.7 million. Moloney asked if that is what was predicted and Lueker said that this number goes up and down from month to month. O' Mara added that if you look at the change in net position, we were budgeted to be at a $9.1 million loss in cash flow for this time of the year, but instead we are at a $5.4 million loss because there is great seasonality in our revenues. Looking at the variance column alone is not the entire story; we are now losing less than we predicted at this point in the year cash-flow wise.

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

October 2016 Monthly Actual Compared to Adopted Budget				
Revenue Category	**Actual MTD**	**Budget MTD**	**Variance**	**%Var**
OLT- Employee Withholding	10,482,793	9,448,575	1,034,218	10.9%
OLT - Net Profit	1,320,275	1,444,099	(123,824)	-8.6%
Insurance	5,269,031	3,053,178	2,215,853	72.6%
Franchise Fees	2,551,558	1,999,186	552,372	27.6%
TOTALS	19,623,656	15,945,038	3,678,618	23.1%

October 2016 YTD Actual Compared to Adopted Budget				
Revenue Category	**Actual YTD**	**Budget YTD**	**Variance**	**%Var**
OLT- Employee Withholding	57,620,276	57,015,742	604,534	1.1%
OLT - Net Profit	6,658,217	7,606,036	(947,819)	-12.5%
Insurance	12,638,666	10,223,604	2,415,062	23.6%
Franchise Fees	8,575,721	8,098,964	476,757	5.9%
TOTALS	85,492,880	82,944,346	2,548,534	3.1%

Cash Flow Variance – Revenue

	For the four months ended Oct 31, 2016			
	ACTUAL	*BUDGET*	*Variance*	
Revenue				
Payroll Withholding	$57,620,276	$57,015,742	$604,534	1%
Net Profit	6,658,217	7,606,035	(947,818)	-12%
Insurance	12,638,666	10,223,604	2,415,062	24%
Franchise Fees	8,575,721	8,098,964	476,755	6%
Other Licenses & Permits	1,043,257	1,080,553	(37,296)	-3%
Ad Valorem	546,008	669,767	(123,759)	-18%
Services	8,257,689	6,959,534	1,298,155	19%
Fines and Forfeitures	90,000	91,888	(1,888)	-2%
Property Sale	50,876	102,332	(51,456)	-50%
Intergovernmental	78,410	96,540	(18,130)	-19%
Investment Income	(15,847)	173,247	(189,094)	-109%
Other Income	927,230	1,110,301	(183,071)	-16%
Total Revenue	**$96,470,503**	**$93,228,508**	**$3,241,995**	**3.5%**

Cash Flow Variance – Expense

For the four months ended Oct 31, 2016	ACTUAL	BUDGET	Variance	
Expenses				
Personnel	($62,409,147)	($60,204,942)	($2,204,205)	-4%
Operating	(12,877,546)	(15,767,292)	2,889,746	18%
Debt Service	(15,078,804)	(15,228,826)	150,022	-1%
Partner Agencies	(7,198,028)	(6,887,843)	(310,185)	-5%
Insurance - Expense	(1,016,423)	(1,170,037)	153,614	13%
Operating Capital Expenditures	(1,499,189)	(1,829,266)	330,077	18%
Total Expenses	**(100,079,138)**	**(101,088,205)**	**1,009,067**	**-1%**
Interfund Transfers				
Transfers	(1,834,308)	(1,324,079)	(510,229)	39%
Change in Net Position	**(5,442,943)**	**(9,183,776)**	**3,740,833**	

Code Enforcement Nuisance Abatement/Lien Collections

Month	Administrative Collection Fees		Miscellaneous		Penalty & Interest		Total Collections	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
July	225	476	253	546	15,545	18,043	16,022	19,065
August	1,125	600	802	308	10,163	14,984	12,090	15,892
September	545	969	2,153	2,072	71,212	52,780	73,910	55,821
October	1,275	1,125	2,132	2,115	39,069	45,592	42,476	48,832
Totals	3,170	3,170	5,339	5,041	135,989	131,399	144,498	139,610

Comparison of Economic Indicators

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County Unemployment Rate	2014	5.6%	6.0%	5.8%	4.8%	5.1%	5.2%	5.1%	4.6%	4.2%	3.9%	4.0%	3.6%
	2015	4.3%	4.0%	4.0%	3.7%	4.0%	4.1%	4.2%	3.5%	3.4%	3.1%	3.6%	3.6%
	2016	4.2%	4.3%	4.1%	3.3%	3.6%	3.9%	3.8%	3.3%	3.4%	N/A		
Quarterly Fayette County Employment	2014	-	-	180,078	-	-	184,553	-	-	184,658	-	-	191,287
	2015	-	-	184,932	-	-	189,400	-	-	190,800	-	-	198,100
	2016	-	-	187,600	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	2014	1,157	999	931	1,461	1,815	1,660	1,696	1,529	1,399	1,605	1,058	1,112
	2015	1,134	1,858	1,019	1,108	1,431	1,551	1,319	1,523	1,595	1,394	1,220	1,158
	2016	937	1,206	1,510	1,631	1,453	2,071	1,042	744	860	737	-	-
Fayette County New Business Business Licenses	2014	244	280	366	807	279	187	194	213	219	242	158	137
	2015	197	224	330	749	362	198	198	283	264	286	238	160
	2016	203	248	445	564	658	299	173	260	219	231	-	-
Home Sales (MSA)	2014	524	517	693	787	997	1,069	1,006	1,021	854	860	681	794
	2015	571	651	884	963	1,140	1,346	1,334	1,165	1,072	1,054	815	919
	2016	640	773	950	1,139	1,313	1,419	1,230	1,338	1,155	1,050	-	-
Fayette County Foreclosures	2014	31	40	34	53	16	53	35	25	46	25	42	25
	2015	33	20	36	24	18	43	18	41	12	43	41	26
	2016	22	36	25	27	31	21	26	40	14	31	-	-

N/A indicates information not available.
BLS Release Dates for Fayette Co. Quarterly Employment - 6 months after quarter end

III. Public Infrastructure Program

Stinnett introduced Derek Paulsen, Commissioner of Planning, who presented an update of the Public Infrastructure Program.

Mossotti asked whose shop this came out of. Paulsen said this came out of his shop through economic development work. Mossotti asked if this was a way to incentivize developments to be done; where they couldn’t be done before because of cost. Paulsen said that was correct. Mossotti asked if we received a reimbursement once the development is up and going. Paulsen said we do not and this is because we benefit from payroll taxes and withholdings. He said that they envision this program working as more of a grant rather than a loan. Mossotti asked if there were certain preferences given to developers over others. Paulsen said no, at this time there is no vision to give preference points to any developer; they look at these on a case by case basis. Mossotti asked how much money we have to do this and Paulsen said originally there was a $750,000 bond fund, but we cannot give bond funds to developers for projects; LFUCG would have to be the contractor and do the work and Paulsen does not think this is a viable option. Paulsen said he would like to approach the budget committee in Fiscal Year 18 and ask for money to let the program start going. He said he would like to come back before council to discuss how the $750,000 bond funds can be used for other projects. Mossotti asked if he has a number at all and Paulsen said $750,000.

Stinnett added to Mossotti’s question for clarification asking what number they are asking for in the budget. Paulsen said he would like to ask for $1 million and see how that goes; looking at this as a pilot program.

Moloney asked about the $6 million dollars put into 21C hotel; he said we have an additional $5 million in that account so why wouldn't we go after that money. He said that way we would not have to take $1 million out of the budget every year; we can bond this for $5-6 million and pay that off every year and if it isn't paid off, bond it again. Paulsen said it was discussed and in terms of using the bond money, it will not work because we would have to be the contractors on the infrastructure. Moloney asked why we can't do it the same way as 21C did and Paulsen said they aren't talking about doing it in the exact same way. Paulsen said he would check into how exactly they did the project and he will get back to Council.

Stinnett added that once the program gets approved, they can decide how to fund it.

Paulsen addressed Moloney's question about the $1 million and if that was enough money. He said this was gap financing and we are not using the money to build the entire infrastructure. It is designed to assist in that program. He added that the $1 million gives them flexibility to do several projects. Moloney said he wants to make sure we are not putting money in GF when we have money out there that could go a lot further than $1 million. Paulsen restated Stinnett's comment saying that it is 2 parts. It would be programmatic how we set it up and then we would decide how to fund it.

Kay asked about creation of jobs with average salary above median. He feels like there is a problem with using averages and medians in talking about salaries and he wants to clarify the intention asking if it is meant to provide well-paying jobs. Paulsen said that is correct. Paulsen said it was to provide flexibility in terms of the range of salary. Kay asked about parking for public use and how much is used for public/private. Paulsen said some would be reserved for developer and some would be public. Kay asked about a calendar for applications. Paulsen said there would be applications on a monthly basis. Kay asked about preferences and would they be equal. Paulsen said there is not one that outweighs another and we can track it over the years.

F. Brown asked about the $750,000 and if it was in the General Fund and Paulsen said it was not in General Fund, but is a bond left over from Distillery District project. F. Brown asked if there was a time limit for spending the bond money. O'Mara said a percentage of bond money has to be spent within 36 months of issue. F. Brown asked about the $750,000 and can it be spent before fiscal-year end. Paulsen anticipates starting this program after Fiscal Year 18. O'Mara said the design of this program cannot be used with bond funds. F Brown asked about the $750,000 and what that will be used for. O'Mara said they would go to Council to have a project approved, but it would not be this project. F. Brown said he still has a problem with duplication and what we are doing in that area. He said he likes pilot programs because you have to work on them and see results, but $1 million is an expensive pilot program. F. Brown asked about feedback from development community and Paulsen there are several developers interested in applying.

Lamb asked if the intention was to offset exactions. Paulsen said this is a way to build infrastructure without cost to developer. Lamb asked about evidence of the leverage of funds and what is being referred to as evidence. Paulsen said they would have to show proof that they have financing to afford the gap funding for the project. Lamb asked about Water Quality involvement and Sanitary/Sewer involvement. Paulsen said they would bring in appropriate staff to review those sections.

Farmer asked if there was a thought process by which they might consider this a counter-balance to the PDR program. Paulsen responded that he never thought of it in that way; he said it came about in looking at the barriers to economic development. He added that they have seen it from an infill aspect where applicants planning and various other ways and the costs from infrastructure can be an impediment to development downtown. He said it was never envisioned to be a counter-balance to PDR, but it is something that is very important in incentivizing economic development where we can. Farmer also asked about an increase in retail and how that is going to happen. Paulsen said they were thinking from the infill redevelopment area; they are looking to incentivize it in this area. Paulsen said just because you can apply, does not mean you will be funded. He said it would depend on location of infrastructure. Farmer asked what action are they are asking for today. Paulsen said they would like general approval, vote to move this forward and he will come up with a formalized ordinance.

Mossotti asked about exactions and added that those are passed down to the consumer. She followed up her previous question about reimbursement because exactions are already put through to the consumer that gives more of an offset to the developer and she does not want the developer(s) taking advantage of a program. Paulsen responded that increased residential units are not in an exaction-able area; exactions are only in expansion areas in the economic development area so it would not be passed to homeowner.

Stinnett commented that is a compliment to PDR and if this isn't providing incentives, we are missing the boat; he thinks this program would make it easier. He requested updates on the project/draft ordinance in January.

No further comment on this item.

IV. Downtown Development Authority Update

Stinnett introduced Tom Harris, Chair of Lexington Downtown Development Authority, who presented an update of the Downtown Development Authority (DDA). He presented a snapshot of the activities that DDA has been working on over the past year. He also spoke about a consolidation of downtown organizations, specifically DDA and Downtown Lexington Corporation (DLC) that council has encouraged them to pursue. Steve Kelly, board member of DLC spoke about the opportunities of a combined organization.

Moloney commented on the impact of funding, for example how many jobs were created and how many people were impacted; he said in the future he would like to see that. He also commented about the merge. He said there are other organizations like the Civic Center and Airport Board and the Health Department who we have helped out and given start-up money to, but they go out on their own and get the rest of the funding. He said he commends DLC for going on their own and getting funds, but he doesn't see a plan for DDA to take the money and do this on their own. He thinks there should be a merge, but he is not sure how you put it together until you can fix some of the problems.

Plomin asked about the operating budget and memberships. Kelly responded that $900,000 budget and memberships make up about 18%. He said events activities are about 70% and sponsorships are largely part of that. Kelly added that they are an extremely membership-driven organization doing what the membership wants them to do and what supports them. He added that that as long as the funding was segregated so you can see DLC memberships and sponsors giving money for events so those continue in downtown and the DDA is doing activities funded its way, there is a way to work together. They see it as more a partnership and not as much a merger where the two organizations continue and work together and moving forward new things will emerge. Plomin asked if they looked at other models across the country. Kelly said Louisville and Cincinnati have similar models, but they need more time to have a detailed discussion with them about challenges and how we overcome those so we are prepared when members ask questions.

Lamb asked if all of the members come from the downtown area or all over the city. Kelly said the majority of the members are downtown, but some come from around the city. Lamb added that the Downtown Lexington Management District was developed that it impacted the downtown area so it's almost like there is a duplication of funding there and she asked if this is being discussed in the consolidation process. She added that the members would be happier about not having to pay twice.

Harris said they kept going back to Louisville to review their model. He said they are membership-based, they have a development division and they manage the downtown management district; their model was similar to ours in that all entities being managed are under one umbrella. He said it is important members get what they pay for and the taxing district gets what they pay for so they have a pretty good model.

Bledsoe thanked DDA and DLC for having the conversations, she said she knows it is not an easy conversation to have and no one thought we would get here quickly. She said thank you for continuing to move the ball and have the tough conversations. She added that we are looking for that synergy in the combination of all the three groups working together on a unified front where we would find synergy that no one thought existed before. That would be the goal – that partnerships blossom and grow faster than they would have because of partnerships.

Farmer asked how much of this is forced and we asking too much and are they able to get this done. Harris said they are still talking. Farmer said it is easy to support their efforts, but if it turns out to be tougher than they though, let (Council) know about it. Farmer asked about the DDA boundaries. Harris said they will get more detail; it has been with partnerships with UK and the city utility work and the planning process.

Kay asked for more detail on the consolidation proposal in terms of management, finance and structure. Harris responded that the working group who put that together met with different groups including DDA, DLC and Commerce Lexington. He said this is not a new discussion. He said the proposal is a starting point, a working document. Kay asked if the document offered at least one possible way forward to create a single entity. Harris responded that it was a starting point.

Stinnett said there was too much synergy not to merge groups. He asked for them to come back in 2-3 months with a report. Stinnett asked if Downtown Management District has been invited to have discussions. Harris said the chair has been briefed. Stinnett asked if there was a way to bring all 3 entities together. Harris said they have not discussed with the board of Downtown Management District, but he has discussed the concept with the chair. Stinnett said if all three groups can get together and come back that would be helpful.

Bledsoe commented that when we made the recommendation, the Downtown Management District did have their membership or board designed so we did not feel we could invite them into that conversation, but now is great time to do so.

No further comment or action was taken on this item.

V. Items Referred to Committee

No further comment or action was taken on this item.

A motion was made by Scutchfield to adjourn, seconded by Mossotti. The motion passed without dissent.

The meeting was adjourned at 2:36 p.m.

K.T. 12.12.2016