



## Budget, Finance & Economic Development Committee

June 23, 2020

### Summary and Motions

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Committee chair, Amanda Bledsoe, called the meeting to order at 1:01 p.m. Committee members Steve Kay, Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Bill Farmer, Angela Evans, Fred Brown, and Jennifer Mossotti were in attendance. Councilmembers Josh McCurn, Preston Worley, Jennifer Reynolds, and Kathy Plomin were in attendance.

Bledsoe read the following statement: “Due to the COVID-19 pandemic, state of emergency and Governor Beshear’s Executive Orders regarding social distancing, this meeting of the Urban County Council is being held via video-conference pursuant to Senate Bill 150 (as signed by the Governor on March 30, 2020) and Attorney General Opinion 20-05, and in accordance with KRS 61.826, because it is not feasible to offer a primary physical location for the meeting.”

#### **I. Approval of February 25, 2020, Committee Summary**

A motion was made by Farmer to approve the February 25, 2020, Budget, Finance & Economic Development Committee summary; seconded by Mossotti. The motion passed without dissent.

#### **II. Approval of March 17, 2020, Committee Summary**

A motion was made by Kay to approve the March 17, 2020, Special Budget, Finance & Economic Development Committee summary; seconded by Mossotti. The motion passed without dissent.

#### **III. Monthly Financials Update – May 2020**

Bill O'Mara, Commissioner of Finance, provided a financial update through May 2020. All top four revenue sources had a negative variance (year to date). He said they predicted erosion in these categories due to COVID-19, citing examples such as the delayed tax filing deadline and insurance rebates. He reported the city about \$15 million below budget. Melissa Lueker, Director of the Division of Budgeting, said expenses are maintaining a positive variance. She said the biggest savings in personnel is due to health insurance. She said the overall expense savings totaled \$17.7 million. They concluded the city has a fund balance of \$2.9 million for the first 11 months of the year; typically about \$4 million is used each year to cover pre-paid and purchase orders rolls. He reviewed year to date (actual to budget) variances as of May, as of April, and the change over that month's time showing a negative impact in every revenue stream between April and May, a total loss of \$9.9 million. He showed that same comparison for expenses, concluding the actual additional savings since April (extracting the partner agencies variance) is \$4 million. He pointed out the largest savings in personnel are related to medical filings and how they don't know if the city will retain that variance. He anticipates continued erosion in payroll withholdings in June and said net profit will be unknown until August 10.

F. Brown was encouraged by the payroll withholding variance being \$1.3 million. O'Mara said \$3.2 million was lost in May, explaining the positive variance leading into the pandemic has since run out. He expects the negative variance in payroll withholding to grow and pointed out the unknown impact on Lexington's withholding relative to the federal PPP stimulus funds allocated to the state. F. Brown confirmed the FY2020 books will remain open until about August 10 and talked about making up for the originally projected \$11 million shortfall to date but O'Mara questioned whether the city will maintain that position. They discussed balancing the budget versus cash flow and noted \$2 million of budget

stabilization is reserved for cash flow in June. They concluded the city will manage the fourth quarter and have the ability to close the books through June 30.

Moloney expressed concerns about people not paying net profit taxes, the closing of restaurants, and COVID-19 spiking across the country. He asked about increasing payroll and property taxes and the threshold or amount that would require public input, noting 4 percent for property tax. David Barberie, Managing Attorney, said there is no threshold for payroll tax. Moloney talked about balancing the budget, having issues with more expenses versus revenue, and the need to see net profit after July 15.

Kay asked about typical medical filings and how it is different now. O'Mara explained how subsidies from the general fund are used regularly to ensure there is enough money to pay all of the claims, adding that subsidies were not necessary this year. Lueker said the current health insurance variance is \$2.9 million; she outlined other significant savings in personnel: \$500,000 in overtime, \$500,000 less in payouts for people leaving the government, and \$700,000 by limiting seasonal and part-time employment. Kay concluded that because of the delay of net profit to July, the net profit variance should improve rather than get worse. No further comment or action was taken on this item.

FY2020 – Cash Flow Variance Revenue (Actual to Budget):

<i>For the eleven months ended May 31, 2020</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Revenue</u></b>				
Payroll Withholding	190,380,333	191,653,431	(1,273,098)	-0.7%
Net Profit	25,898,089	38,432,812	(12,534,723)	-32.6%
Insurance	34,949,067	35,684,638	(735,571)	-2.1%
Franchise Fees	23,593,835	24,620,954	(1,027,119)	-4.2%
Other Licenses & Permits	4,996,017	4,970,260	25,757	0.5%
Property Tax Accounts	25,597,398	25,730,043	(132,646)	-0.5%
Services	23,044,578	22,747,009	297,569	1.3%
Fines and Forfeitures	171,440	238,517	(67,077)	-28.1%
Intergovernmental Revenue	386,652	377,957	8,695	2.3%
Property Sales	80,592	137,500	(56,908)	-41.4%
Investment Income	1,187,376	1,038,383	148,993	14.3%
Other Income	2,862,330	2,710,738	151,592	5.6%
<b>Total Revenues</b>	<b>\$333,147,706</b>	<b>\$348,342,241</b>	<b>(\$15,194,535)</b>	<b>-4.4%</b>

FY2020 – Cash Flow Variance Expense (Actual to Budget):

<i>For the eleven months ended May 31, 2020</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Expense</u></b>				
Personnel	213,484,682	218,497,892	5,013,210	2.3%
Operating	38,374,831	49,609,978	11,235,147	22.6%
Insurance Expense	8,493,015	8,467,741	(25,274)	-0.3%
Debt Service	44,740,327	44,757,694	17,367	0.0%
Partner Agencies	19,590,874	20,890,323	1,299,449	6.2%
Capital	305,336	522,848	217,512	41.6%
<b>Total Expenses</b>	<b>\$324,989,065</b>	<b>\$342,746,476</b>	<b>\$17,757,411</b>	<b>5.2%</b>
<b>Transfers</b>	<b>5,215,164</b>	<b>5,833,211</b>	<b>618,047</b>	<b>96.5%</b>
<b>Change in Fund Balance</b>	<b>\$2,943,477</b>	<b>(\$237,446)</b>	<b>\$3,180,923</b>	

#### **IV. Minority Business Enterprise Program and Software Update**

Sherita Miller, Minority Business Enterprise Liaison, first talked about the Diverse Business Management System that all primary and sub-contractors are required to register with. She reviewed the system's capabilities such as contract compliance audits and reporting mechanisms. She showed a comparison for total purchase-order spend over the last six years, reporting FY2020 at \$75 million. She showed the city's DBE/MBE/WBE combined spend since 2015 (purchase order spend to contract per payment), reporting FY2020 at \$8.7 million or 20.53 percent, which exceeded the city's combined MBE/WBE goal of 10 percent. She reviewed similar charts for service-disabled and veteran-owned small businesses, pointed out the city's 3 percent goal, and reported FY2020 at 8.46 percent. She said the majority of the city's business is with Caucasian male and female-owned businesses. She outlined the differences between an availability goal study versus a disparity study and highlighted some advantages and disadvantages for a joint or multi-jurisdiction disparity study.

Mossotti concluded the city's spend percentages are based on the number of minority businesses available; if we had more minority businesses, the numbers would increase. She asked how to improve. Miller said through with outreach, such as her annual Construction Connection networking event and the Lexington Minority Women Contractor Training Program. They discussed the communication of opportunities and bonding as other barriers. Businesses must be certified to qualify as MBE/WBE with the city. Mossotti added the lack of access to capital as another issue, such as approval for loans or not applying for fear of rejection.

Lamb and Miller clarified how subcontractors and payments are tracked within the system with POs for each contract, noting that salary and wages are separate from this system. Miller pointed out that the prevailing wage can be tracked but that isn't common.

In response to Plomin, Miller listed LFUCG, University of Kentucky, and Fayette County Public Schools as potential partners and said she would limit the area to Lexington only. She cited Louisville's school district and the city of Cincinnati as examples for a disparity study, as well as FCPS conducting an availability study a couple of years ago.

Reynolds asked Miller if she's seeing a variety of minorities through her outreach and training. Miller said it is mostly Black or African-American. Reynolds talked about expanding outreach to other minority groups. Miller said she would have to look at the businesses in those communities, whether they are interested in doing business with the city, and mentioned using her training webinar on how to do business with the city.

J. Brown talked about exceeding the goal of 10% overall but not doing well in the race category. He asked what we can do to breakdown the categories with separate goals for each category where we would like to see improvement. Miller said we can't look at individual goals for race or ethnicity without conducting an availability or disparity study first, something she has confirmed with the Law Department. She pointed out a disparity study is defensible in court. J. Brown said this would be an important investment for the city to make sure the sub-groups are given opportunities. Miller said an availability study is at least \$50,000 and a disparity study is \$500,000 or more. J. Brown said we have the opportunity to do better in diversity spending in various categories and that the mayor's Commission on Racial Justice and Equity may circle back to these issues because of protestors suggestion to aim for 15 percent.

Evans talked about the level of a contractor, asking how the city engages with subcontractors, and grows that pool to partner with or become themselves, primary contractors. Slatin explained the bid

process, how proposals include the goals of 10 and 3 percent as part of the solicitation, and that contractors are actively working to find subcontractors to meet these goals. He said some of the improvement in the spend percentage is a result of simply tracking subcontractors. Evans asked about the continued engagement of subcontractors. Miller said she knows women-owned or minority-owned businesses and keeps the DBA community apprised of bids.

Ellinger asked about the FY2020 spend percentage by race and ethnicity. Miller said it is the PO spend percentage with the contract pay percentage. They discussed that 11.4 percent Caucasian represents white male and female-owned businesses, but only the women-owned businesses from this category count towards the goal. The African-American owned businesses who have contracts with the city makes up 0.93 percent. Miller explained this data is based on the contracts that are already in the database, which is connected to other certifying entities; race and ethnicity are declared by the contractors within the system.

Lamb asked if a breakdown of locally owned businesses in Lexington by race and ethnicity exists to compare our percentages in relation to the bigger picture. Miller said that data should be available through Commerce Lexington or the Kentucky Cabinet for Economic Development but the only information she has is from LFUCG contracted businesses. Lamb said this might be helpful for encourages new businesses. No further comment or action was taken on this item.

#### **V. Administration of Local, Small Business Stimulus Package of \$2.5 Million**

Worley explained this item was approved with the FY21 budget and at the same time referred to the committee to set the criteria for the program to give Kevin Atkins, Chief Development Officer, guidance; he referenced the financial presentation earlier in the meeting that outlines the necessity to support businesses. Hilary Angelucci, Council Office, first recognized the people who helped with the small business stimulus package proposal. She provided data about Lexington businesses outlining how most businesses have less than 20 employees. She explained the business requirements including location, max number of employees to be less than 50, and to have been in operation since January 1, 2020. She talked about the 50 percent commitment to minority and women-owned businesses, which dedicates \$1.25M to businesses that are 51 percent minority or women-owned. She reviewed the grant award that reimburses expenses up to \$25,000 per business or business group, which could serve at least 100 businesses.

Angelucci outlined the eligible expenses as costs that are necessary expenditures incurred due to the public health emergency of COVID-19. She highlighted the priorities for grant awards and eligible expenses, as well as key components for the application. The approval process would utilize two review committees, including a partnership with Tyrone Tyra of Commerce Lexington and the Access Loan Committee that would make recommendations to the Economic Development Investment Board. Angelucci outlined the distribution of funds in waves, limiting the first wave to 50 percent of the program funding to provide the opportunity to adjust the program if needed. She outlined two next steps, to adopt the framework of the program and to determine whether the city would seek reimbursement from the Coronavirus Relief Fund through the Kentucky Department of Local Government.

J. Brown asked if allowing non-profits will increase the number of applicants or dilute the applicant pool. Angelucci said if they employ people in Lexington, they will not be excluded but said we will take into consideration other funding sources an entity has received. J. Brown pointed out how guidelines under the CARES Act and the PPP Loan excluded companies owned by previously convicted felons and confirmed this was not a restriction in this grant program. Angelucci talked about their effort to avoid

restrictions for who could apply. Bledsoe said this was not considered as part of the criteria and we tried to keep it as open as possible. J. Brown said he would not want the way someone pays themselves or their employees (i.e. IRS Tax Form 1099) to be a barrier to apply.

Ellinger confirmed the plan to finalize the program by July 9<sup>th</sup>. Angelucci explained a resolution adopting the framework of the program could get approval through the council meetings on July 7<sup>th</sup> and July 9<sup>th</sup>, adding that the intent is to get the money to businesses as quickly as possible, with the application window in July, and potentially distribute the first round of funding before the council comes back from summer recess. Ellinger mentioned some reporting he has read that projects 40 percent of minority-owned businesses will not make it and said the sooner we get these funds out the better. He asked about marketing and outreach and Angelucci said we would rely on all internal structures including council member's newsletters, social media, etc. as well as outside partners. Ellinger said the inclusion of non-profits was something he hadn't considered before. Bledsoe pointed out not-for-profits and non-profits are eligible to be as open as possible.

Evans referenced the previous presentation and talked about carving out 25 percent of the funds specifically for minority businesses because of the amount of business the city does with white women-owned businesses and the racial disparity that remains. She expressed concern about unilateral decision making when the qualifications are subjective. She talked about this going through the council or receiving a list of the businesses who are awarded funds, saying there is a need for the council to be involved. She compared the unilateral decision making with the Industrial Authority, which the council had concerns with, and wanting to avoid problems other federal programs have had. She said she appreciates the expediency but said it needs to be tweaked.

Lamb said she is concerned with the management for \$2.5M, eluding to the possibility of more than 100 applications. She had concerns about the time to put forward the methodology that is necessary to manage this transparently with oversight of public funds. She asked what the city would need to be considered for reimbursement from COVID-19 relief funds. Charlie Lanter, Director of the Division of Grants and Special Programs, said we would have to seek and receive prior approval from the DLG for the program. The individual grant contracts with the businesses would have to be tracked and monitored carefully because it would involve federal funds, including extensive documentation of expenses. He said it will be complex to run this through the federal chain. He did confirm that the DLG would only require the agreements to determine what was reimbursed but LFUCG would have to ensure compliance through thorough documentation of the expenses. Lamb commented about volunteers committing to review the applications and expressed concerns about the listed LFUCG employees having the time to work on this because the program is a huge undertaking. She is curious about the database to manage the information for auditing purposes. She has concerns about the EDIB making final approval because the applications they currently review are forwarded to the council. She said some questions need to be answered while pointing out her understanding of the desire to get this into the community.

Mossotti shares similar concerns as Lamb and said the management of the program is critical. She asked who will receive the applications; Angelucci said she could help and disburse them to the review committees. Mossotti said this could be overwhelming and mentioned the idea to farm the entire program out, for example to Commerce Lexington. She outlined important details such as who receives the applications, sifts through them, and determines who is eligible or not. She said this is a grant and there will be a lot of applications and talked about the need to know how we are running the whole program before moving forward. She expressed concern about the inclusion of non-profit and not-for-profits because she thought the intent was to reach businesses. She said we are addressing non-profits in another way.

Worley said the item in committee is to look at the eligibility criteria and the administration of the program is developing but in large part, it will be under the Chief Development Officer because that is where the money is budgeted. About unilateral agreements, he talked about the review committees consisting of business leaders, bankers, and Commerce Lexington who are familiar with this kind of work and what these businesses need, which adds to the level of scrutiny and credibility as well as depoliticizes it. He recalled Mossotti building in a quarterly review so it will come back to the council for review and oversight and pointed out why the unilateral agreement would be useful due to the council calendar and timing of the program. He said that with the administration working on the EDA Revolving Loan program, there are processes and people in place to handle the program and tracking. He talked about the priority to determine the criteria, such as the inclusion of non-profits, which were included because they are job creators. He said the review committees will look at the merits of the application and that his priority lies with the job.

Moloney talked about minority businesses that didn't get stimulus money and a priority to get the grant funds to those businesses first. He asked about a high demand for this portion of the funds carrying over into the other part of the funding, particularly because minority businesses are struggling. Worley said it wouldn't require council action if more than 50 percent of the funds went to those businesses so if there is more need, the money can go to that. Angelucci said the first wave would limit both pools of the funds to 50 percent. Moloney said this should not be handled by the council office and that it will be more overwhelming than the social services grant program and require a lot of people to get the funds out quickly.

Kay clarified this program was approved so that "at least" 50 percent of the funds are dedicated to minority and women-owned businesses. He said this raised some questions about how the review process will be handled and agreed it will be a lot of work, noting that the administration is responsible for this. Angelucci clarified that she was not saying she would do this all on her own and that there is time to determine the process behind the scenes to implement the program. Kay said it will be helpful to identify who manages this process. He also said it is important to consider non-profits because they employ people.

Lamb compared the applications she reviewed as a member of the EDIB that had specific criteria; she wants to see this program's criteria more developed, including the reasons why expenses are justified and awarded to what extent, to prevent issues. She questioned if there should be a minimum amount required to seek reimbursement. Worley said we did not set a minimum. He compared the work of the Corridors Commission and neighborhood action match program, saying the review committees consist of those who analyze businesses' needs every day. Lamb questioned the management and staffing of the review committees, eluding to tons of questions, and said she wanted to hear from the administration on this program. She mentioned having a special committee meeting over the council break to ensure we properly vet this.

Farmer said this is a starting point and we should move ahead with the framework, using the next couple of weeks to follow up on the questions raised today. He made a motion to accept a resolution outlining the framework of the small business stimulus package 2020 to move to the full council on July 7<sup>th</sup> at Work Session. Discussion on the motion included the following. Kay said he shares some of the expressed concerns but to move forward in a timely fashion they should approve the motion while allowing time for more information to be provided. He said a special meeting could be considered at the end of their currently scheduled meeting, if necessary.

Lamb made a motion to amend to have Angelucci summarize the questions and concerns raised today regarding how this program will be developed and who will be involved and to distribute that list to the council, to make sure they are answered before July 7<sup>th</sup>. Discussion on the motion to amend included the following. Evans talked about significant questions that need to be answered and the need to get this right the first time.

A motion was made by Lamb to amend, directing Angelucci to summarize the questions and concerns raised today regarding how this program will be developed and who will be involved and to distribute that list to the council, to make they are answered before July 7<sup>th</sup>; seconded by Evans. The motion passed with a 5-3 vote. (Moloney, Ellinger, Lamb, Evans, Mossotti voted yes; Kay, J. Brown, and Farmer voted no; F. Brown was absent, Bledsoe did not vote)

A motion was made by Farmer to accept a resolution outlining the framework of Small Business Stimulus Package 2020 to move to the full council on July 7<sup>th</sup> at work session; seconded by J. Brown. As amended, the motion passed with an 8-1 vote. (Kay, Moloney, Ellinger, J. Brown, Lamb, Farmer, Mossotti, and Bledsoe voted yes; Evans voted no; F. Brown was absent)

## **VI. Economic Development Partnership Services RFP**

Craig Bencz provided a presentation on Economic Development Partnership Services RFP to distribute \$300,000 to implement the city's four economic development strategies. He reviewed the scope of work for each strategy and the scoring committee, providing a list of committee members. He said the scoring criteria were broken down by the quality of the entity, approach, innovation and efficiencies, and price. Nine agencies applied. He reviewed the funding recommendations that awarded Euphrates International Investment Company, Commerce Lexington, EHI Consultants, and the Urban League. He explained each award was funded at 77 percent of the request to meet the initial program budget.

Lamb asked about the new business development award to Euphrates and what set them apart since they are a new company. Bencz said they were objectively scored using a rubric and scored the highest score. He added that the firm was established in 1981 and that the application showed a variety of experience; Aaron Persley is the lead for the firm. Lamb asked if the business could have been under another name because it looks like it was started in March 2020. She confirmed there were multiple applicants for this category and the PSAs would go through council. Atkins said half of the funds will be distributed upon execution of the agreement and the second half isn't paid until EDIB does a year-end review with the partner.

Moloney, a new member of the EDIB, talked about Euphrates paperwork that was filed in March and their experience. Atkins explained the team assigned to this project has years of experience. He said we can provide resumes for the team members. Moloney referred back to experience in Lexington, highlighting resources such as banks ready to loan money, connections to preachers in the African American community.

Evans referenced the earlier presentation on minority business and questioned the minority make-up of the awardee for the new business development category. She eluded to her desire for them to go above and beyond LFUCG's goals. Slatin said this addressed in their proposal and he can pull the exact make-up of the company.

J Brown talked about being familiar with the community and challenges with being a newcomer in the market but the committee recognized an opportunity to select this company. He said this is a new process and some of its integrity will be based on the results so he is interested in how we monitor the

goals and success of what is being asked. He asked about the additional funds of \$250,000 approved in the budget for economic development that requires a match. Bledsoe said the EDIB agreed they would work with the three awarded partners to come up with a framework for those funds, which would come back [to the council]. J Brown said we need to give our community the best chance possible to be successful so a lot hinges on economic development, pointing out opportunity with the additional funds.

Bledsoe said one person from Euphrates currently works for the state and believes this is a conflict of interest. Bencz said that was not in the criteria the scoring committee looked at but would likely be part of the PSA process. Bledsoe talked about holding the new partners to a higher standard than previously done, highlighting detailed quarterly analysis partners provided in the past on deliverables. She suggested that given the financial situation, this should be an annual process rather than a two-year process.

Moloney asked when the potential conflict of interest would be addressed. Bledsoe said the person is part of the state's economic development team. Slatin said any conflict would arise during the PSA process when the agreement is drafted. No further comment or action was taken on this item.

**VII. Allocation of \$30,000** (a reduction from FY21 council budget, reserved in fund 1105)

Bledsoe said this item was referred from the Budget COW on June 2, 2020. Moloney suggested this money goes back into the general fund, to start saving money due to current and future shortfalls. J. Brown suggested deferring the reallocation of these funds for a council initiative it could be used for. Bledsoe gained consensus from the committee; it will remain in committee.

**VIII. Items Referred to Committee**

No comment or action was taken on this item.

A motion was made by J. Brown to adjourn (at 3:35 p.m.); seconded by Farmer. The motion passed without dissent.

Link to video of the meeting: [http://fucg.granicus.com/MediaPlayer.php?view\\_id=4&clip\\_id=5159](http://fucg.granicus.com/MediaPlayer.php?view_id=4&clip_id=5159)  
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