



Budget, Finance & Economic Development Committee

November 27, 2018

Summary and Motions

Chair Stinnett called the meeting to order at 1:04 p.m. Committee members Bledsoe, Kay, Moloney, J. Brown, Lamb, Farmer, Evans, and F. Brown were in attendance. Committee member Mossotti was absent. Council Members Smith and Plomin was also in attendance as a nonvoting members.

I. Approval of October 30, 2018, Committee Summary

A motion was made by CM Farmer, Jr. to approve the October 30, 2018 Budget, Finance & Economic Development Committee Summary, seconded by VM Kay. The motion passed without dissent.

II. Financials Update – October 2018

Bill O'Mara, Commissioner of Finance, provided an update on the city's financials through October, the first quarter. He reported the September comparative unemployment rates for Lexington at 3.2, Lexington MSA at 3.3, Kentucky at 4.5, and the U.S. at 3.7. In August the rates were 3.2, 3.3, 4.4 and 3.9, respectively. O'Mara reviewed the economic indicators comparing this time last year to this year, highlighting the number of Fayette County permits issued is up, the number of business licenses is up, home sales are down, and the number of foreclosures are down. He concluded that all indicators except home sales have a positive comparison. Under the October month-only compare to budget actuals, Rusty Cook, Director of Revenue, pointed out that the city is down \$7.6M, primarily in employee withholding, which affects the year to date numbers. He explained this is because of due dates at the end of the quarter. He highlighted variances of the top four revenue sources, comparing the year to date for 2017 and 2018.

Melissa Lueker, Director of Budgeting, reported cash flow revenues, noting that property taxes are down slightly, services have a positive variance, the large positive variance for investment income is due to interest, and that other income is primarily penalties and interest that people have paid. She also noted that overall revenue is showing a negative variance of \$7.8M, year to date. Lueker reported expenses, highlighting a one percent variance for personnel and that overtime is the main category that we have overspent. She said the variance for insurance and debt service expenses are because of the timing of refunding a specific bond. She pointed out the variance for the partner agencies is largely attributed to one agency. She emphasized all partner agencies will be paid and that variance will disappear as the year goes on. In regards to fund balance, she said that if you take into consideration the timing of revenues we are not as negative as the actuals look.

CM F. Brown clarified that the change in fund balance and what is budgeted for FY19 for expenses is information based on the last four months. Lueker explained that the city does not collect revenue equal to expenses each month. She clarified that revenue and expenses are not distributed evenly across 12 months, they are assigned in the budget when the expense is expected to happen. O'Mara noted they are watching net profit because of a soft first quarter, as well as the franchise fees. He said he is not sure we will recover in franchise fees and added that if there is a bad winter we will have a positive variance for franchise fees. He explained that we budgeted more expenses this year and that most of the property tax revenue is received in November; concluding, that they will monitor the finances through November and December.

CM Moloney asked about capital expenses and whether it was a bond; Lueker said this is from the general fund for items that aren't bondable. CM Bledsoe said she agrees to wait through December to see if the numbers settle out. She asked Cook if he has any projected concerns in employee withholding and he said he did not, through October. No further comment or action was taken on this item.

October 2018 MTD Actual Compared to Adopted Budget:

<u>Revenue Category</u>	<u>Actual MTD</u>	<u>Budget MTD</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	6,279,362	11,544,542	(5,265,180)	-45.6%
OLT - Net Profit	1,292,733	1,336,447	(43,714)	-3.3%
Insurance	2,971,114	5,117,513	(2,146,399)	-41.9%
Franchise Fees	2,308,789	2,412,876	(104,087)	-4.3%
TOTALS	12,851,998	20,411,378	(7,559,380)	-37.0%

October 2018 YTD Actual Compared to Adopted Budget:

<u>Revenue Category</u>	<u>Actual YTD</u>	<u>Budget YTD</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	56,982,833	62,100,179	(5,117,346)	-8.2%
OLT - Net Profit	7,832,948	8,124,641	(291,693)	-3.6%
Insurance	11,133,354	13,229,885	(2,096,531)	-15.8%
Franchise Fees	8,263,729	8,665,928	(402,199)	-4.6%
TOTALS	84,212,863	92,120,633	(7,907,770)	-8.6%

2019 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget):

<i>For the four months ended October 31, 2018</i>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
<u>Revenue</u>				
Payroll Withholding	56,982,833	62,100,179	(5,117,346)	-8.2%
Net Profit	7,832,948	8,124,641	(291,693)	-3.6%
Insurance	11,133,354	13,229,885	(2,096,531)	-15.8%
Franchise Fees	8,263,729	8,665,928	(402,199)	-4.6%
Other Licenses & Permits	1,022,842	1,172,430	(149,588)	-12.8%
Property Tax Accounts	626,836	843,988	(217,152)	-25.7%
Services	8,691,266	8,644,517	46,749	0.5%
Fines and Forfeitures	86,449	79,667	6,783	8.5%
Intergovernmental Revenue	48,251	64,570	(16,319)	-25.3%
Property Sales	92,592	83,333	9,258	11.1%
Investment Income	354,247	156,335	197,913	126.6%
Other Financing Sources	591,000	591,000	-	-
Other Income	1,216,169	984,870	231,299	23.5%
Total Revenues	\$96,942,516	\$104,741,343	(\$7,798,827)	-7.4%

2019 Fiscal Year – Cash Flow Variance Expense (Actual to Budget):

<i>For the four months ended October 31, 2018</i>				
	Actuals	Budget	Variance	% Var
<u>Expense</u>				
Personnel	67,351,936	68,151,178	799,241	1.2%
Operating	15,126,896	19,304,329	4,177,433	21.6%
Insurance Expense	937,069	1,194,931	257,862	21.6%
Debt Service	25,019,282	25,361,897	342,615	1.4%
Partner Agencies	7,276,165	7,991,363	715,198	8.9%
Capital	237,464	560,001	322,536	57.6%
Total Expenses	\$115,948,813	\$122,563,698	\$6,614,885	5.4%
Transfers	1,695,741	915,624	(780,118)	118.8%
Change in Fund Balance	(\$20,702,038)	(\$18,737,979)	(\$1,964,059)	

Comparison of Economic Indicators 2017/2018:

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	2016	4.2%	4.3%	4.1%	3.3%	3.6%	3.9%	3.8%	3.3%	3.4%	3.3%	2.9%	3.1%
Unemployment Rate	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%
	2018	3.0%	3.5%	3.4%	3.0%	3.2%	4.0%	3.8%	3.2%	3.2%	N/A		
Quarterly Fayette County	2016	-	-	188,039	-	-	192,063	-	-	194,300	-	-	196,500
Employment	2017	-	-	191,760	-	-	193,695	-	-	195,800	-	-	199,800
	2018	-	-	191,400	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	2016	937	1,206	1,510	1,631	1,453	2,071	1,042	744	860	737	742	721
	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		
Fayette County New Business	2016	203	248	445	564	658	299	173	260	219	231	211	153
Business Licenses	2017	201	253	418	468	621	328	206	281	205	247	213	140
	2018	219	250	379	751	535	286	166	264	209	279		
Home Sales (MSA)	2016	640	773	950	1,139	1,313	1,419	1,230	1,338	1,155	1,050	1,012	1,081
	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	N/A		
Fayette County	2016	22	36	25	27	31	21	26	40	14	31	31	16
Foreclosures	2017	27	17	16	19	16	17	20	22	19	16	26	16
	2018	21	0	22	21	21	22	16	25	28	14		

N/A indicates information not available.

BLS Release Dates for Fayette Co. Quarterly Employment - 6 months after quarter end

FY19 Code Enforcement Nuisance Abatement/Lien Collections:

<u>Month</u>	<u>Administrative Collection</u>		<u>Miscellaneous</u>		<u>Penalty & Interest</u>		<u>Total Collections</u>	
	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2018</u>
July	675	825	1,430	603	15,407	6,936	17,512	8,364
August	75	1,125	2,068	1,711	61,651	35,892	63,794	38,728
September	225	800	4,083	1,260	31,372	55,540	35,680	57,600
October	150	375	2,431	536	88,286	50,654	90,867	51,565
Totals	1,125	3,125	10,012	4,110	196,715	149,022	207,853	156,257

III. Global Headquarters Initiative

Kevin Atkins, Chief Development Officer, provided a presentation on the global headquarters initiative, RecruitLex, which started as a conversation with Valvoline's Chief People and Communications Officer, Commerce Lexington and the city's Office of Economic Development. He explained how they quickly realized they needed to expand this conversation with other companies and a working group was solidified to address the talent issues these companies are facing; the group now has four committees. He said the group is dedicated to making this a long-term approach to help the global headquarters in Lexington and pointed out they are now looking to expand this initiative for all headquarters in Lexington, not just global companies. Atkins highlighted the companies involved in the video steering committee and showed a video that the group created to support their initiative. He concluded that this is a workforce issue and that this video will be used in their executive talent recruitment efforts.

Many of the committee members congratulated the video. CM Lamb asked if the video will be shortened and about its accessibility. Atkins explained the video is available on the website and added that the video is created in a way that can be edited to meet the needs of individual companies. CM F. Brown asked who owns the rights to the video and Atkins said the global headquarters group. CM F. Brown asked if this group should be formalized and pointed out a few things that weren't included in the video like the historic courthouse, the senior center and the convention center. He said the video is great PR for the city and that we need to promote it as best we can. CM Evans commended the intentionality of covering different groups and organizations in the video.

CM Bledsoe asked who the target audience was and Kimberly Rossetti, Commerce Lexington Vice President, Economic Development, said c-level talent. CM Bledsoe said it would be helpful to see the notes from group's conversations, pointing out that government wants to recruit talent to its structure as well. She said that what RecruitLex is learning would be helpful to understand and asked the administration to work on communicating their successes and challenges back to the council. She mentioned the city's workforce development efforts working more cohesively with shared information. Atkins said the committee structure of the working group will likely support this kind of direction.

CM Plomin pointed out that individuals in the immigrant community in Lexington are often underemployed. She said there is a lot of talent within this community but it's not being tapped. CM J. Brown commended the diversity that Lexington has to offer that is highlighted in the video.

CM Moloney asked about the 250 acres that was recently acquired from the University of Kentucky and whether this initiative should play a role in its development. Atkins explained this video was originally created to recruit talent. He commented on how well it showcases Lexington and the powerful message that Lexington can send, especially in coordination with the video Commerce Lexington uses for their client recruitment. No further comment or action was taken on this item.

IV. Review of Resolution 156-94, 27th Pay Period Funding

CM Lamb touched on the benefit to rescind something in the government that is no longer needed, and recent commitment of additional funds to the economic contingency fund and the budget stabilization fund. After pointing out that the city now has more ability to use the economic contingency fund, she explained that the resolution she is proposing, which rescinds resolution 156-94, includes information documenting the rationality and history of it. Resolution 156-94 directs the appropriation for payment of the 27th pay period.

O'Mara said the council endorsed the administration's recommendations for the FY2018 fund balance at the last committee meeting that led to the proposed resolution. He explained the remaining piece of that discussion was for council to consider the elimination of the 27th pay period fund, which was created in 1994. He noted that when the fund was created there was no economic contingency fund, no policy to have one, and a downturn in the economy. He said from an accounting point of view, the financials recognize 365 days of payroll per year but cash flow wise, once every 10 years, a 27th pay period is paid within a 12-month period. He pointed out the economic contingency fund of \$34M and that the city has not used that money to finance the 27th payroll so it makes sense to absorb the 27th pay period fund into the economic contingency fund.

CM F. Brown said that he is not particularly fond of moving this money to the economic contingency fund because it is a highly restricted fund and he pointed out the budget stabilization reserve fund as another option that could be considered. He said the economic contingency fund has plenty of money in it. O'Mara cited the ordinance that regulates the economic contingency fund, which made it much more reasonable by eliminating the dictated formula that made the fund so restrictive. CM F. Brown noted that the city has never used the fund ever and his concerns about placing more money in the fund when you look at how much debt we are in.

VM Kay asked if the ordinance directing the use of economic contingency fund would allow the council to utilize money from the fund for a 27th payroll. O'Mara agreed it would and pointed out that it allows the CAO to bring forward a proposal if it was needed. Kay added that the council has the ability to amend the regulations that restrict the fund going forward. CM Farmer mentioned the amount and quality of the reserve funds that help the city save money and keep borrowing costs down.

A motion was made by CM Moloney to eliminate the 27th pay period fund. Discussion of the motion included the following comments. He added that if something happens, the first thing that has to be paid off is your debt and that building the economic contingency fund would allow the city to pay off some of that debt. CM Farmer confirmed that the motion is to adopt the resolution included in the packet on page 34.

A motion by CM Moloney to accept the resolution rescinding resolution No. 156-94, which directed the appropriation for payment of a 27th pay period, and authorizing and directing the department of finance and division of budgeting to eliminate the reservation of any existing funding toward a 27th pay period, with any such funding allocated or reallocated in accordance with the FY2018 fund balance determinations; seconded by Susan Lamb, the motion passed without dissent.

V. Review of the Exaction Program

CM Stinnett reviewed the importance of this project and the need for council to determine how this program should move forward, particularly related to Expansion Area 1 where there has been no development activity to date. Craig Bencz, Administrative Officer Senior, provided the follow up presentation on the exaction program, which was last heard in August. He reviewed the three expansion areas that are affected by exaction fees. VM Kay asked for a map identifying the land that has been developed and what has not.

Bencz said there are seven capital facilities addressed in the expansion area master plan. He highlighted the guiding principles of the program and how rates are set, assessed and tracked. He pointed out the

roles of four LFUCG divisions involved in the program. He said the new exaction database is almost complete, noting the plan to test it in December and go live in January. He referenced a handout that was given to the council at the beginning of his presentation, which provides a summary of the credits, associated with over 40 developer agreements. Bencz said the rate table was last updated in 2010. He pointed out the program recommends the rate table be updated quarterly and said quarterly is probably too often. He mentioned the review of Article 23 of the zoning ordinances, which will eventually come before the council, and pointed out the Exactions Credit Advisory Committee, who reviews the proposed rate table and agreements.

CM Stinnett highlighted policy questions that he hopes the council will continue to work on, such as should the program continue, what does it look like going forward, and what and when the already collected fees will be used.

VM Kay asked about the goal of this program to be zero-sum game and whether the fees collected are anticipated to cover the infrastructure needs. Bencz said they are in the process of updating cost estimates of all the remaining infrastructure items, reconciling the costs of completed infrastructure and obtaining updated cost estimates for future improvements, which will inform the new rate table. He said until this is complete that question is tough to answer. Kay emphasized the underlying intent of the program is for the city to incur zero cost of the development and that exaction fees are meant to carry the infrastructure costs for development areas; he confirmed this principle is driving the new rate base.

Bledsoe asked who is on the Exactions Credit Advisory Committee and Bencz explained it consists of representatives from various LFUCG divisions involved in exactions and that the committee is established by Article 23. He said the updated rate table would be reviewed by the advisory committee and then it will go to the council for approval. They agree the rate table should come back to the committee, before going to the full council.

CM Lamb asked about agreements relative to exactions that come before the council for approval, noting that the council approves overall elements of the program such as the actual expansion areas. Bencz explained the two ways in which a company can pursue credits through this program, either through a memorandum of understanding with LFUCG, which is signed by the CAO, or through Article 23 that allows a developer to receive interest on those credits, which requires a resolution and council approval. She asked about the level of transparency with the new database. Bencz said the new table will be available to the public on the website and how the upgrades will also benefit staff.

CM Moloney asked if the money that is collected in a specific expansion area could be used in another area and Bencz explained the money is generally used in the same area it was collected from and for the purpose it was collected for. CM Moloney asked what happens to remaining funds if the development is complete. Bencz clarified that the collected fees are first applied to all planned improvements. He added that if a developer did all of the infrastructure themselves and there was an overpayment, the city would need to find an equitable way to redistribute those funds. He noted the money was not programmed yet and that it could be applied to facilities such as roads. He said they are taking a fresh look at the remaining infrastructure that's yet to be constructed, evaluating costs and what land needs to be platted and developed to determine an equitable way to distribute the exaction fees. CM Moloney concluded that development itself can cause the fees to go up and that just because the fees are not programmed does not mean that they are not needed.

CM Lamb said it might be nice for a council member or an aide to be involved in the review of Article 23. No further comment or action was taken on this item.

VI. Career Academies in FCPS, with Business & Education Network

Betsy Dexter, Executive Director of Business & Education Network, provided an informational presentation on the Academies of Lexington, a program in three public high schools based on focused learning communities. She highlighted Commerce Lexington's focus on partnership development for the program and pointed out there are 110 businesses involved in the program. She highlighted the *Career Exploration Event* in November, an interactive event for high school freshman to explore different careers and businesses. Heather Eppley, an Academy Coach at Bryan Station High School, explained her role as an academy coach in the school. She explained the work done to connect classroom content to the real world, providing examples of books they choose and how they tie experiences to the curriculum. She highlighted experiential field trips for sophomores, such as a trip to Keeneland and tour of a home being built. LaMargaret Johnson, a junior in the Academy of Information Technology at Bryan Station High School, told the story of her friend's experience with LFUCG trying to have a pothole fixed, which led her and few other students to create an app, Lexapp, to help connect people to local government. She explained how they submitted the app to the 6th District Congressional App Challenge and won the contest, which sent them on a trip to Washington, D.C. to present their app. Last, she pointed out how this is just one of the cool projects they are working in the academy.

Several council members commended the program and the academies. They talked about Ms. Johnson's courage and excitement, young peoples' engagement with local government and applauded the dedication of many who are working to make the academies program a success.

CM Bledsoe talked about the idea of the city's summer youth employment program mirroring the academy focus areas and how they can work together. She said that it may be appropriate to have that conversation in the spring because of the progress that has been made. Kim Lyon, Strategic Partnership Manager with FCPS said that they wanted to make sure their students are ready; she said she feels they are ready now.

CM Stinnett asked Dexter what their biggest challenge is. She explained the challenge is going to be "scaling up"; to expand the program, whether that is adding more high schools, or middle schools. He asked how the council can help and she said they can help by continued support of the program and sharing stories about the program. No further comment or action was taken on this item.

VII. Items Referred to Committee

No action was taken on this item.

A motion was made by CM Farmer to adjourn, seconded by CM Evans. The motion passed without dissent.

The meeting adjourned at 2:43 p.m.