Budget, Finance & Economic Development

June 27, 2017

Summary and Motions

Chair Stinnett called the meeting to order at 1:01 p.m. Committee Members in attendance: Bledsoe, Moloney, Kay, Farmer, Evans, J. Brown. Lamb, Scutchfield and Mossotti were absent. Smith, Plomin and F. Brown were present as non-voting.

I. Approval of March 21, 2017 Committee Summary

Motion by Farmer to approve the March 21, 2017 Budget, Finance & Economic Development Committee Summary. Seconded by Bledsoe. Motion passed without dissent.

II. Financials Update

Commissioner O'Mara gave a presentation of the March financials.

Rusty Cook, Director of Revenue, gave a presentation of the March revenues.

Moloney asked why Net Profits were down $5,000,000. Cook replied that businesses are putting more money back into their businesses. Payroll growth is $8.8M year over year which means that some of their profits are being spent to give raises to employees and buy equipment. Moloney said that O'Mara talked about unemployment being low and asked if unemployment is low, why are we coming in below budget in every category except insurance? Cook replied that unemployment could be low or flattening out and all the growth is based on raises. So if businesses are giving 2 or 3 percent raises or 1% raises, unemployment stays there but our revenue isn't going to go up. Next year's budget is based on 3.8% growth – 2% wage growth and 1.7% job growth.

Bledsoe asked about Investment Income, whether this is something trending or if the income just wasn't there. O'Mara replied that it's an accounting entry that is made every month. We have long term investments but we have to assume that if we sold them at the end of the month, would we lose money or make money. Since we have bonds that have a maturity date, if you sell them early you would technically lose. So we're required to make that entry every month and recognize that as a gain or a loss to be in compliance with GASB.

F. Brown asked when the sale of the property on Nicholasville Road enters in to the Property Sale category. Melissa Lueker, Director of Budgeting, replied that the sale just happened so it would show up in the month of June. Brown asked if the total amount would go in there. Lueker said that it's not the total of the sale; a percentage will go to CDBG, the rest will go into General Fund, approximately $900,000.

Lueker presented the remaining revenue streams and cash flow variances for March. She pointed out that services were higher because of bed fees in Corrections. Personnel is settled in at the $4M overage. However, on the operating side, there is a $9.2M positive variance showing that the management controls that were put in have worked. She also reiterated that by not having a bad winter, it helped with the expense of salt and contractors. She thinks that with the large positive variance in operating, we will be okay and manage through the overage in personnel.

Moloney asked if they pay personnel costs out of operating to keep the money going or do we keep it floating to show what the loss is and trade off at the end of the year. Lueker replied that it shows where the loss is, that there is enough money in operating to cover it. Moloney asked if the salt barn, for example, is part of the $9M in operating. Lueker replied no, that it's part of the capital. Moloney asked where that money went because he was told that we weren't going to use that money. Lueker replied that it was bond money and it's still sitting there. Moloney asked if it was going to be used to pay personnel. Lueker said no, that it's a separate fund for bonds. It has nothing to do with this table. Moloney said that at the first of the year, you all put in the budget that we were going to do a salt barn and put it in the bond. Lueker agreed. Moloney stated that he understood that because of the shortfall in personnel, we had to cut back and not do some of these bonds to pay personnel. Lueker replied that we would never use bond money, that you can't use bond money to pay personnel expenses. Moloney said you can if you don't go out and do new bonding. Then you can take that money and put it in personnel. Lueker replied no, if we were to reallocate a bond we would reallocate it to a new capital project or expenditure appropriate for bond money. It wouldn't be used for personnel. O'Mara clarified that we budgeted to build a salt barn. We bonded an amount that we felt was the necessary funding. When bids came in they were much larger than the amount that we had bonded. Then the discussion came whether the General Fund could afford to pay for the additional costs in order to finish the project. We felt with the insecurity in our revenues and expenses that we could not commit to that. So the money is there that was originally bonded. The difference is what we had the debate about. Moloney asked why we have such a big operating cost of $9M. Lueker replied that the biggest portion of the operating variance is in Professional Services where people had service contracts and didn't utilize them. She said there was $864,000 in salt that we didn't have to buy this year. There was Grant Match but some of that will go away because it will roll into the next year. Utilities were less due to better weather.

Stinnett asked about the May to May from last year in Expenses. Operating was flat year over year so we haven't increased our operating costs. But Personnel is up $10M from last year. What's the biggest driver on that besides contracts? Lueker replied that in Corrections, their hiring increased. We had done our budget where year over year we were maintaining a certain number of vacancies so we didn't budget for those. At the end of May we had 58 positions in Corrections that had a budget of zero. We added positions to our budget last year. Every time you add positions, that adds to our base. Stinnett asked why insurance was so much lower. Lueker responded that it's the timing of when we made a payment versus when we made a payment last year. Stinnett asked if we have a big payment coming in June. Lueker replied that we do. Stinnett asked how that would affect the year to date expenses. Lueker replied that the $667K variance would wash out. We'll have the rest of the budget in place for it. O'Mara added that, as well, the additional cost in personnel includes an increase in health insurance claims.

<u>No further action or discussion of this item.</u>

May 2017 MTD Actual Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	%Var
OLT- Employee Withholding	21,796,555	23,164,816	(1,368,261)	-5.9%
OLT - Net Profit	6,583,298	8,087,246	(1,503,948)	-18.6%
Insurance	4,923,330	5,483,123	(559,793)	-10.2%
Franchise Fees	2,113,074	2,313,761	(200,687)	-8.7%
TOTALS	35,416,257	39,048,946	(3,632,689)	-9.3%

May 2017 YTD Actual Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	%Var
OLT- Employee Withholding	177,678,401	178,581,000	(902,599)	-0.5%
OLT - Net Profit	34,729,645	39,358,964	(4,629,319)	-11.8%
Insurance	30,389,591	29,057,743	1,331,848	4.6%
Franchise Fees	22,308,345	23,549,028	(1,240,683)	-5.3%
TOTALS	265,105,982	270,546,735	(5,440,753)	-2.0%

2017 Fiscal Year – Cash Flow Variance Expense (Actual to Budget)

For the eleven months ended MAY 31, 2017				
	ACTUAL	***BUDGET***	***Variance***	
Expenses				
Personnel	($187,316,705)	($183,315,032)	($4,001,673)	-2%
Operating	(38,438,319)	(47,684,272)	$9,245,954	19%
Debt Service	(33,752,546)	(36,661,865)	$2,909,319	8%
Partner Agencies	(18,716,422)	(18,881,716)	$165,294	1%
Insurance - Expense	(1,172,758)	(1,840,713)	$667,955	36%
Operating Capital Expenditures	(3,311,084)	(5,179,864)	$1,868,780	36%
Total Expenses	**(282,707,833)**	**(293,563,462)**	$10,855,629	4%
Interfund Transfers				
Transfers	(9,586,382)	(5,785,149)	(3,801,232)	-66%
Change in Fund Balance	**24,199,998**	**20,333,282**	**3,866,716**	

2017 Fiscal year – Cash Flow Variance Revenue (Actual to Budget)

For the eleven months ended May 31, 2017				
	ACTUAL	***BUDGET***	***Variance***	
Revenue				
Payroll Withholding	$177,678,401	$178,581,000	($902,599)	-1%
Net Profit	34,269,882	39,358,964	(5,089,082)	-13%
Insurance	30,389,591	29,057,743	1,331,848	5%
Franchise Fees	22,768,108	23,549,028	(780,920)	-3%
Other Licenses & Permits	4,661,907	4,282,078	379,829	9%
Ad Valorem	22,602,077	22,809,582	(207,505)	-1%
Services	20,334,579	18,920,962	1,413,618	7%
Fines and Forfeitures	223,188	217,568	5,620	3%
Property Sale	231,027	281,417	(50,390)	-18%
Intergovernmental	504,894	353,972	150,922	43%
Investment Income	238,821	457,002	(218,181)	-48%
Other Financing Sources	55,000	55,000		
Other Income	2,536,738	2,551,829	(15,091)	-1%
Total Revenue	**$316,494,213**	**$320,476,144**	**($3,981,931)**	**-1.2%**

Comparison of Economic Indicators 2016 / 2017

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	2015	4.2%	4.2%	4.1%	3.6%	4.1%	4.2%	4.2%	3.6%	3.6%	3.5%	3.6%	3.8%
Unemployment Rate	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%
	2017	4.0%	3.8%	3.9%	3.6%	N/A							
Quarterly Fayette County	2015	-	-	185,062	-	-	189,584	-	-	191,038	-	-	197,966
Employment	2016	-	-	188,039	-	-	192,063	-	-	194,300	-	-	196,500
	2017	-	-	N/A	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	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	742	721
	2017	876	739	924	899	1,357	-	-	-	-	-	-	-
Fayette County New Business	2015	197	224	330	749	362	198	198	283	264	286	238	160
Business Licenses	2016	203	248	445	564	658	299	173	260	219	231	211	153
	2017	201	253	418	468	621	-	-	-	-	-	-	-
Home Sales (MSA)	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	1,012	1,081
	2017	776	794	1,060	1,067	1,411	-	-	-	-	-	-	-
Fayette County	2015	33	20	36	24	18	43	18	41	12	43	41	26
Foreclosures	2016	22	36	25	27	31	21	26	40	14	31	31	16
	2017	27	17	16	19	16	-	-	-	-	-	-	-

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

There was not an update on Code Enforcement Nuisance Abatement/Lien Collections for May.

III. Energy Project Assessment Districts

Stinnett introduced this item. He stated that it's not a new tax. It's an opportunity for a business to invest in renewable energies, more energy efficient HVAC, roofing, a number of things that a business can invest in. Unfortunately there isn't a lot of incentive to do so because of the cost. This is a way to make it more cost effective so they can use private financing which is secured through the property tax bill to help pay the debt load to the bank and make it more affordable. He introduced Jonathan Miller.

Miller said that it's based on the notion of energy performance contracting. Basically you hire an energy service contractor, they do an audit and make a contractual promise that they can do all of the energy efficiency improvements, they'll get the loan and the payment would be every year less than the utility savings you're going to get by making the improvements. If it's not, they will make up the difference. The problem is that while a school system or city can get a bond to make this math work – you'd need to get a 15 or 20 year loan at a low enough interest rate – a private business owner can't get a bond. So what 30 other states did is this program called PACE, Property Assessed Clean Energy, where loan repayment is done on the property tax bill. Every year it appears on the bill and the bank can now make a 15 or 20 year loan at a low enough interest rate because they know they're going to get paid because that tax is going to be collected. The name was changed from Property Assessed Clean Energy to EPAD because in Frankfort the words clean energy has a different connotation. Municipalities have to pass an ordinance because there has to be a way to put it on the property tax bill, figure out who collects it. There's not a lot of expense involved. There is no cost to the city. Whoever administers this program will get paid out of the proceeds of these deals. It's a great way for cities to do economic development to help buildings in the private sector become more energy efficient.

Stinnett pointed out to the committee that Louisville and Union County are currently doing this as well as Bowling Green, Owensboro, and Newport. A lot of cities across the state are going into this. A copy of the ordinance is included in the presentation. One of the decisions to be made in the ordinance is who will be the Administrator. In most cities, the Mayor's Office is the Administrator. After speaking with Commissioner O'Mara, we don't want to be the Administrator so we would need to appoint a third party.

David Barberie, Managing Attorney, stated that the city will have to be involved no matter what. The law will allow contracting it out. There are one or more entities that will do this. We could go through a competitive process or if there's someone else that's another governmental body we contract out without going through competitive process. But you will be involved in taking petitions and basically entering into a contract for the actual assessment. So I think you'll probably have to designate a department or division in the government to at least take those petitions and that kind of stuff. Stinnett stated that, to be clear, we won't prepare the assessments, we won't do the application process. We'll just be presented to, to put on our docket to approve. Barberie replied that yes, if you contract with someone to do all that stuff, the government itself would not be responsible for getting all that stuff together. Stinnett replied that it's more of an approval process than anything based on our statute.

Stinnett continued that the other piece is the collection piece. In Fayette County, the Sheriff is the collector of property taxes. Luke Morgan, attorney representing the Office of the Fayette County Sheriff, said that the Sheriff's Office by statute is entitled to considerably more, about 3 1/4 % collection on fees and revenues. But the Sheriff wants to help make this work and is in agreement to a 1% fee on this. He was told to relay to the Council that the Sheriff's Office is happy to be the assessor and take on that administrative task. Her office is already involved in collecting this revenue and the assessment is a relatively straight forward thing. So he doesn't think it will require a particular expertise. Additionally it's a one-stop shop for the taxpayer. They're already working with the Sheriff's Office on paying this and collecting it. So it streamlines the process.

Bledsoe asked what the fee was to do the assessment. Morgan replied that it's to be determined. He thinks they're currently looking at approximately $150.00. That's the application fee. Bledsoe asked that the Sheriff believes they have the expertise to do an assessment value on energy efficiency? Morgan replied yes. In that the application fee and the assessment processes are laid out in the ordinance. So, yes, he thinks that the office is quite capable of coming up with that. They're not going to be going out with infrared devices and measuring the actual savings. But as far as collecting on what is listed in the ordinance, yes. Stinnett added that the application fee hasn't been set yet. That's something that will have to be done in the ordinance. And whoever we determine to be the third party person, if we indeed want a third party or if we want to ask Commissioner O'Mara to try to figure out how to do it in-house, that's an option too. In Louisville, the Sheriff collects but the Mayor's Office does it in-house and they've assigned another division in government to do all the administration. So there's a ton of options.

F. Brown asked if this was just on existing properties, not on new buildings or new projects. Morgan replied yes. Brown asked for an example, saying that someone has a commercial building and they want to do the energy efficiency at a $100,000 cost. How does that go through the assessment process? Miller responded by using the Big Blue Building as his example. An energy service company will meet with the owners of the building and they'll do an audit of the property. Let's say that they determine that it will take $10M of improvements. So they will go to a bank; the bank will come up with a 15 or 20 year repayment period and they pay back $1M a year. That $1M is what is called the assessment part of this because that $1M will go on to the property tax bill. So when the Big Blue Building gets its property tax bill, it will say "Property Tax – so and so", "Firefighter Fund – so and so", "EPAD Assessment - $1,000,000". Brown asked that adding that $1M doesn't add to the total property. Miller responded no. But ultimately you're going to be left, after the construction is done which is probably in the first year, with a more valuable property. So the PVA will reassess the building, the building will now be worth more. As a result, they will pay higher property tax because of the new assessed value.

Moloney said he appreciated Miller bringing this up. His question was to the Sheriff's Department as to why they would want to do this, stating this was totally out of their element, and do they have the means right now to do this. Morgan said that the Sheriff's view is that they're going to be involved in it anyway and they may as well be at that table in helping with this. They're the ones who will have to collect, send out the bills. So from the Office prospective they will be there. Do they have the devices? Are they going to be able to go out and perform these evaluations tomorrow? The fair answer is no. But that doesn't mean that they won't be when the time comes. Part of the thing to keep in mind is that this Office gives back to LFUCG quarterly, 25% of the fees that it collects. At the end of the term, the Sheriff's Office gives back everything that is left over, the so-called surplus. So, we're in this together.

Farmer said it sounds like that the same office both assesses then collects, there's an additional income to the government, 25%? Morgan replied that he thinks that for LFUCG to see 25 % the only route that that's going to go to see it is either in-house or through the Sheriff's Office. By going through somebody else, that won't be coming back. Farmer added that this could be an excellent tool for an entity of about any size. It gives opportunity to the environment and to our local economy all at the same time. Stinnett added that there is a minimum project cost of $20,000 in the ordinance, and that's by state statute. Single family houses are not eligible. But if it's 5 units or more in multi-family housing, it would be eligible.

Evans stated she was curious to know, regardless of what entity would be administrating, what are the actual roles? What would be the description in the bid? Miller responded to understand most of the technical and financial and hard work that's done, it's done outside of government. It's between the triangle of the building owner, the contractor and the bank. When the legislature passed this, the notion is that this is a private sector generated thing. We want to keep government's role to minimum. We don't want to cost taxpayers a dime. Again, this doesn't cost you all anything. But we want to have a private sector solution to the energy efficiency issue. That's not to say that there's no role. There needs to be an entity that supervises this, to make sure that all of the items in the checklist are checked and there has to be this pledge that the savings are going to pay for the financing. The administrator takes in the applications, reviews them, makes sure that they're compliant, and makes sure they're certified by engineers and experts. A real important role that Louisville has embraced and that you see in bigger cities is this is a great economic development platform. So this is a great thing to advertise.

Kay said it would be helpful to walk through who's doing what. Starting at the top (of the chart included in the packet), the property owner says "yeah, I'd like to get in this program". Then they contact one of these contractor/providers and that contractor does an assessment. Who pays for that? Miller replied generally the energy audits are performed for free. Kay says so they do an assessment. Who first approves the assessment? Is this where government has to review every one of these? Miller said the application is a simple process that provides assurances to the city that the project is a sustainable one and that it's going to pay for itself. Kay asked if we would have to have somebody in-house to review that and then make a recommendation to Council. Miller responded that he didn't think other states really have to go through a legal proceeding. I mean a legal counsel. Again, the city is never on the hook here. If this all fails, the city isn't out. The bank is out. So you're going to have this added protection of a bank. There not going to approve any deal unless they know they're going to get their money out of it. So they're going to provide that extra layer of protection. Kay said he was just trying to figure out who actually has to do what at each stage. If we pass this ordinance, it's not that every one of these is going to come before Council? Miller replied no. Actually, there is a need for an ordinance to be passed for each one of these. Barberie added that it may be helpful for the committee to look at pages 30-32 of the packet. This was largely modeled after the Louisville ordinance which was largely modeled after the state law. It walks you through the things that the Administrator would be required to do under this ordinance. Yes, you all will have to play a role no matter what, even if we contract out the Administration part of it. One of the roles you are going to play is they have to petition the local government to consider doing one of these projects. And then the actual contract for the assessment itself has to go to you for approval. These other things could legally be contracted out. I think that decision rests with you as to whether that's the right thing to do or not. But the list of things that have to actually be done as part of the administrative process starts with Section 7 of the proposed ordinance and then you also have the general parameters in an earlier part of the ordinance, Section 5.

Bledsoe said this is a no-brainer. Using it as an economic development tool is the part that I'm most interested. In Section 8 of this, it talks about how there's an annual fee that's not to exceed 1%. But there's also a commission that should not exceed 1%. The question is it would seem like the larger projects, 1% would be okay. But in some of the smaller projects, they might need more hand-holding to make some of these numbers work. I'm curious your thoughts on if there's flexibility in some of those or not flexibility to make it the kind of tool that not just large companies could use but smaller companies could, too. Miller replied that he wanted to thank the Sheriff for agreeing to do this 1%. The challenge is if it's anything higher, the math no longer works. To give you an assurance about smaller entities, I always get to rely on the fact that this is working in 31 other states. 1% is really the state of the art across the country. So it has worked for small projects as well as large projects.

Stinnett asked why new construction would be excluded from wanting to be more energy efficient. Miller replied that there are plenty of programs that promote energy efficiency in new buildings. The Lead, Energy Star. This is specifically a program that goes after improving buildings because that's where the savings come from. You wouldn't get the same kind of math in a new building.

David O'Neill, PVA, commented that it makes sense that one office does both the collection and the administration and he thinks it should be the PVA office, with the caveat that once they become delinquent they then go to the Sheriff's Office for collection.

J. Brown asked out of the municipalities that have implemented this program, are all of them using the Mayor's Office to implement this? Are they using the PVA or their Sheriff's Department? Stinnett responded that he knows there are two that use the Sheriff and the Mayor's Office does the assessments. Miller stated that EPAD is only operating in two municipalities where the Sheriff collects the taxes, Louisville and Union County. So in every county in the state the Sheriff collects the taxes. All the other municipalities are in cities where the City Clerk is usually the tax collector and they have the City Clerk or Mayor's Office running the program. Brown also asked if the only possible revenue that can pass through to the city would be the collection fee. The application fee, could a portion of that go to the city or would that application fee have to stay with the third party? Barberie replied that the current draft has three levels of fees – application fee, which has the $500 or 1% cap, whichever is less; an annual fee that gets assessed to whoever is running the program, 1% of the annual amount that's being assessed; a 1% fee for the collector. As currently drafted, the ordinance states that you would designate a division in the government yet to be named to do all this stuff. If the government decides that it's too big a list they would contract out with somebody, whether it's another governmental entity or a private entity to do all the complicated work.

Moloney asked O'Neill if he has the manpower to do this or will he have to outsource a third party to help. O'Neill said no, the plan is that they would do it entirely in-house and whether or not we have the manpower currently would go to the success of the program.

<u>Motion by Farmer to draw a request for qualifications for both assessment and collection of EPAD. Seconded by Bledsoe. Motion passed without dissent.</u>

IV. **Items Referred to Committee**

<u>Motion by Bledsoe to remove the Right to Work Discussion from the referrals list. Seconded by Kay. Motion passed with dissent.</u>

<u>Motion by Evans to adjourn. Seconded by Bledsoe. Motion passed without dissent.</u>

The meeting adjourned at 2:30 p.m.

tg 7.7.17