Budget, Finance & Economic Development Committee

March 19, 2019

Summary and Motions

Amanda Bledsoe, chair, called the meeting to order at 1:06 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 Preston Worley and Jennifer Reynolds were in attendance as non-voting members.

I. Approval of February 26, 2019, Committee Summary

A motion was made by CM Ellinger to approve the February 26, 2019, Budget, Finance & Economic Development Committee Summary, seconded by VM Kay. The motion passed without dissent.

II. Economic Development Partner: World Trade Center Kentucky

Edwin Webb, President and CEO of World Trade Center Kentucky, started by saying they work to grow trade in this market place and they do that by educating businesses on the power of international trade. He said Kentucky had a record year in 2018 for a total value of $31.8 billion in exports, in which the Lexington-Fayette market place grew 2.5 percent. He mentioned WTCK's partnerships with businesses like Valvoline, Toyota, Clark Material Handling, and Country Boy and stressed the importance of moving their product to foreign markets. He highlighted the partnership with the University of Kentucky Gatton College of Business and Economics to help educate their MBA students and the *International Trade Academy* certification program WTCK offers. He emphasized the importance of world trade and the need to encourage businesses to grow and trade outside our boundaries while referencing information included in the packet from the Gatton College's *Kentucky Annual Economic Report 2019*.

Moloney referenced a recent newspaper article about the significant increase in sales of hemp products in over the last year and asked how WTCK is tapping into that market. Webb said they are working closely with Dr. Will Snell, professor with UK Department of Agriculture, to consider how to legalize it in Kentucky and move it across borders. He believes hemp is going to be huge for the state and reminded the committee that tobacco is still an important crop for Kentucky, as well as the equine industry.

No further comment or action was taken on this item.

III. Financials Update – February 2019

Rusty Cook, Director of Revenue, presented the financial update through February. He reported the comparative unemployment rates through January are doing well, with Lexington at 3.3, Lexington MSA at 3.5, Kentucky at 4.2, and the U.S. at 3.8 through February. He reviewed Fayette County's economic indicators, highlighting the number of permits issued is down, new business licenses are up, home sales are down, and foreclosures are up. He reported the top four revenue sources (year to date) are $8.1M below budget and reviewed each category. He said employee withholding did make up some of the January variance but the economy is flattening out and pointed out that due to timing, insurance will show a positive variance next month. He compared current year to prior year (year to date), which reflects some growth but the economy is slowing.

Moloney referenced a $20 million shortfall eight years ago, which was blamed on the economy and questioned current shortfalls when the economy is good. He compared Lexington to the nation's economic trends. Cook said employee withholding is growing but our wage growth is not what was predicted; he pointed out unemployment is low but it's consistent and net profit payments are down, which could mean businesses don't expect their profits to be as strong. Moloney said he believes LFUCG's budgetary shortfalls are because we spent more money than we should have, citing three large projects done in recent years that are typically done once every 10 - 15 years. He expressed disappointment in the need for cutbacks in the upcoming budget despite a good economy.

Melissa Lueker, Director of Budgeting, reviewed other revenue sources reporting that most of the accounting categories maintained a similar variance rate since last month. She said the biggest jump is in services, with a negative variance of $433,826. She said total revenue is down $7.5 million and explained how other revenue categories have helped cover the large deficit in the top four revenue categories. She said the positive variance for expenses grew slightly and highlighted each category. She reported the overall change in fund balance of $3.1 million. Lueker compared current year expenses to prior year, which show the measures they put in place, such as holding vacancies and encumbering operating, are working.

F. Brown confirmed the overall revenue growth used to build the FY19 budget was a 4 percent projection but actuals are only 3 percent. He asked if there is any correlation between the variance of revenue, actual to budget versus current year to prior year. Cook explained how they calculate monthly revenue, using an average of the last four years for that month. F. Brown concluded LFUCG probably predicted revenues a year earlier then what it should have.

Moloney reemphasized three recent big projects. He said we should have tried to revitalize downtown slower than the pace we did, especially when we learned about the pension impacts.

F. Brown asked if any cuts are reflected in expenses, actual to budget. Lueker explained how the funds encumbered in operating and personnel are nowhere near the current variance of $6.8M. F. Brown confirmed there are no holds on any major expenses in the current budget at this time.

Kay pointed out an increase in debt service of about $2.2 million (current year to prior year) and asked about the total expense given for FY19 bonded projects. Lueker explained how only half of the debt service payment for the $47 million bond is reflected in FY19; she pointed out an additional $2.5 million payment next year.

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

January 2019 MTD Actual Compared to Adopted Budget:

Revenue Category	Actual	Budget	Variance	%Var
OLT- Employee Withholding	26,458,796	25,768,035	690,761	2.7%
OLT - Net Profit	284,968	706,893	(421,925)	-59.7%
Insurance	4,754,337	4,768,662	(14,325)	-0.3%
Franchise Fees	1,637,054	2,857,886	(1,220,832)	-42.7%
TOTALS	33,135,154	34,101,476	(966,322)	-2.8%

January 2019 YTD Actual Compared to Adopted Budget:

Revenue Category	Actual	Budget	Variance	% Var
OLT- Employee Withholding	135,604,985	138,735,735	(3,130,750)	-2.3%
OLT - Net Profit	14,212,642	16,763,655	(2,551,013)	-15.2%
Insurance	24,039,064	24,642,454	(603,390)	-2.4%
Franchise Fees	15,716,599	17,554,596	(1,837,997)	-10.5%
TOTALS	189,573,290	197,696,440	(8,123,150)	-4.1%

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

For the eight months ended February 28, 2019				
	Actuals	**Budget**	**Variance**	**% Var**
Revenue				
Payroll Withholding	135,604,985	138,735,735	(3,130,750)	-2.3%
Net Profit	14,212,642	16,763,655	(2,551,013)	-15.2%
Insurance	24,039,064	24,642,454	(603,390)	-2.4%
Franchise Fees	15,716,599	17,554,596	(1,837,997)	-10.5%
Other Licenses & Permits	4,470,669	3,943,380	527,289	13.4%
Property Tax Accounts	23,033,392	23,258,656	(225,264)	-1.0%
Services	15,409,917	15,843,743	(433,826)	-2.7%
Fines and Forfeitures	181,554	159,333	22,221	13.9%
Intergovernmental Revenue	227,692	278,347	(50,655)	-18.2%
Property Sales	147,073	166,667	(19,594)	-11.8%
Investment Income	908,449	312,669	595,780	190.5%
Other Financing Sources	591,000	591,000	-	-
Other Income	2,531,424	2,328,115	203,308	8.7%
Total Revenues	**$237,074,461**	**$244,578,351**	**($7,503,890)**	**-3.1%**

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

For the eight months ended February 28, 2019				
	Actuals	**Budget**	**Variance**	**% Var**
Expense				
Personnel	150,334,152	152,020,462	1,686,310	1.1%
Operating	30,802,291	37,572,480	6,770,189	18.0%
Insurance Expense	943,804	1,371,133	427,329	31.2%
Debt Service	33,103,503	33,452,400	348,897	1.0%
Partner Agencies	13,010,359	14,858,377	1,848,018	12.4%
Capital	336,254	735,173	398,919	54.3%
Total Expenses	**$228,530,363**	**$240,010,026**	**$11,479,663**	**4.8%**
Transfers	**3,380,001**	**2,515,840**	**(864,161)**	**109.2%**
Change in Fund Balance	**$5,164,097**	**$2,052,485**	**$3,111,612**	

Comparison of Economic Indicators 2018/2019:

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	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%
Unemployment Rate	2018	3.0%	3.6%	3.4%	3.0%	3.2%	4.0%	3.8%	3.2%	3.2%	3.3%	2.7%	2.8%
	2019	3.3%	N/A										
Quarterly Fayette County	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
Employment	2018	-	-	191,578	-	-	193,808	-	-	N/A	-	-	N/A
	2019	-	-	N/A	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	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	952	760
	2019	1,017	846										
Fayette County New Business	2017	201	253	418	468	621	328	206	281	205	247	213	140
Business Licenses	2018	219	250	379	751	535	286	166	264	209	279	174	149
	2019	216	259										
Home Sales (MSA)	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	1,086	953	887
	2019	619	N/A										
Fayette County	2017	27	17	16	19	16	17	20	22	19	16	26	16
Foreclosures	2018	21	0	22	21	21	22	16	25	28	14	-	15
	2019	11	16										

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:

Month	Administrative Collection Fees		Miscellaneous		Penalty & Interest		Total Collections	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
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
November	225	525	1,247	1,664	28,552	40,359	30,024	42,548
December	375	600	1,548	572	33,737	31,407	35,660	32,579
January	150	424	2,138	1,832	43,646	56,185	45,934	58,441
February	600	225	2,476	1,170	54,389	61,030	57,465	62,425
Totals	2,475	4,899	17,423	9,348	357,039	338,003	376,936	352,250

IV. Review of Exaction Program

Craig Bencz, administrative officer in the Division of Planning, provided an overview of the exactions program, describing expansion areas (EA), facilities covered in the program, how rates are set, how rates apply to developers and the need to approve an updated rate table. He briefly touched on the complexities of credits and how they can be used by developers. He referenced Article 23C-5(b) of the zoning ordinances, which requires the rate table to be updated quarterly. He said the program is based on 90 percent of the full development of the expansion areas, totaling about six square miles, of which 80 percent is set aside for lower density residential development; 1,804 acres remain undeveloped. He highlighted two zoning categories dedicated to non-residential development, *community center (nonres)* (CC (nonres)) and *economic development* (ED). Bencz broke down the types of improvements the program applies to and the total cost remaining for each improvement type to complete the plan. He reviewed the updated rate table and pointed out significant rate increases in CC (nonres) and ED zones, which are largely due to increases in trip generation. He explained the recommendation to defer the rate-table update for EA 2C, which will come back to the committee once it's complete and concluded he is seeking approval of the rate table for all other expansion areas. He said the next steps include the final implementation of the new exactions database and a review of Article 23C of the zoning ordinances.

The committee heard public comment related to the item. Joe Brumley spoke about a property he represents near I-75 and Winchester Road, a recent zoning text amendment that allowed them to redevelop the property, and an increase in exaction fees of $50,000, or a 62 percent increase to develop their property if the proposed rate table is approved. Nick Nicholson spoke about the exaction program being the cause of not developing vacant property inside the urban services boundary, and provided examples to show the methodology of the program is flawed. He said the program is required to be net-zero but over-collection is taking place in EA 2C, emphasizing assumptions made in 1996 are not accurate today as the properties have developed. Bill Hoskins expressed concern about the accuracy of what developers owe in fees and the credits owed to developers, referencing various letters his client received from LFUCG, which caused his client confusion. He is requesting an accounting of the fees and credits and highlighted the sense of timeliness because developers are continuing to build.

Farmer clarified Bencz is seeking committee approval of the updated rate table and that the fees would have likely increased gradually if they were updated quarterly. Bencz explained the large increase is because the rate table was last updated in 2010, emphasizing the goal to zero out the cost of the improvements based on the impact of the development so the improvements pay for themselves. He added that the rates are based on actuals and allocate the costs based on the impacts of each land use. He explained that the development community has requested an updated rate table for a while. Brumley questioned whether the fee increases would have spread out over time if it was done quarterly because the program operates through reimbursements, citing an example of improvements that were implemented 11 years ago. Farmer expressed concern the developers' inability to set the price of land without a pricing mechanism and issues with accounting.

Mossotti asked how we can make this equitable and asked about communication with the developer community. Bencz is communicating with the developer community and they are aware of the effort to update the program and rate table. Mossotti questioned how to provide the developers stability with pricing while also evaluating the program through an audit. Bencz said the current review process has essentially audited the program, explaining the total cost for the remaining improvements will not change and changing the fees would only shift the cost to the remaining property owners in the area. Mossotti commented on the discrepancies between staff and the developers and questioned how to get both sides to feel comfortable with the right numbers. Bencz said the rate table was updated objectively; changing how the rates are calculated would create inequities that date back to the beginning of the program. Mossotti expressed reservation to approve the rate table because of the concerns shared from the community regarding the rates.

J. Brown asked if the frozen rates are preventing development from happening now and what is prohibiting reimbursements to developers. Bencz said development can occur under the 2010 rate table. He said 80 percent of credits that are outlined in the agreement is distributed to the developer to use during construction but the remaining reimbursement is done when the project is closed out, which allows the city to utilize actual costs. It was noted that Fayette-County Public Schools does not pay exactions. J. Brown questioned how the total cost of improvements is estimated when the fees are determined by the zone. He also pointed out the difference in fees for residential zones versus ED and CC (nonres) zones. Bencz explained the expansion area master plan, which was adopted in 1996, established all of the zones in each area. J. Brown pointed out how properties can change zones and that our program is based on pre-planned development and zoning. Bencz highlighted some changes to the master plan, such as new schools and large zone changes.

Moloney said he has a problem with a 62 percent increase and if we had gradually increased the rates over time developers might have tried to develop their land sooner, instead, they became reliant on the rates staying the same. He pointed out that some developers feel they have reached their capacity and overpaid, citing EA 2C, and said these discrepancies should be closed out before the updated rate table is adopted. Bencz said issues were apparent with EA 2C when they began the review of the program, which is why they are not recommending updated rates for this area. He explained how the city issued some refunds under EA 2C but that all the other areas balanced according to the methodology used in the past. Nicholson said EA 2C proves there is a problem with the original methodology of the program and that it is apparent the exact same problem is happening in EA 2A and 2B. He said Patrick Madden built the majority of the infrastructure in EA 2A and 2B and he is going to end up owing the government $8.8 million. He concluded updating the rate table is urgent but you can’t do that when it is flawed.

Kay said he is not comfortable taking action on the rate table. He asked Bencz to review the entire transcript of this interchange and provide a written response to the specific questions raised in the meeting as well as the rationale for the more general questions, such as fairness. He suggested scheduling a special committee meeting and that both the committee and the development community have the opportunity to review the written response provided by the Division of Planning prior to the meeting.

Lamb expressed concern about the radical increases for the CC (nonres) and ED zones. She said this rate table update is equivilant to 36 increases if it was done quarterly over nine years. She asked about the information that is being audited by the Division of Accounting, which Bencz explained will be public facing in a way that is easy to digest for each property, once it is complete. Lamb asked if exaction fees and the program have ever received an internal or external audit. Bencz said he believed the program was reviewed by the Division of Internal Audit but he will confirm.

Lamb and Worley both recognized the need to work quickly while also cautiously, emphasizing the committee’s ability to do that by learning more and understanding how this affects the developers. Worley referenced how three of the top five developers of the expansion areas were present and said, perhaps, the methodology is flawed.

Mossotti spoke about the fees affecting the cost of real estate and development; questioning what the city can give developers to go forward today. Bencz said developers will use the 2010 rate table until the council approves an updated table. He explained how a recent zone change expanded the types of allowable uses for the ED zone, which added a lot of potential trips and he believes this is what caused much of the large fee increases for that zone. He pointed out expanded uses add to the palate of what can be built, which could potentially increase property values.

Sally Hamilton, CAO, expressed concern because Bencz will only be able to present the exact same updated rate table when this item is discussed again because he followed the process step by step, which brings us back to the question of whether the process is flawed. She referenced Nicholson's recommendation for the program and pointed out the need for an expert to compare the two methodologies while evaluating the impact of switching the methodology right now. She highlighted the unique structure of the program and the idea of a formalized search to find an expert. Bledsoe confirmed the program has not been reviewed and evaluated externally.

F. Brown talked about two separate issues; whether the exactions program is fairly presented as it was set up and the credits associated with the developers' work. He asked if inflation between 2010 and 2019 as the driving force behind increased costs and if the fees have gone up proportionately while pointing out an increase in the cost of land. Bencz said some costs did go up but the original cost estimate came in over the actual cost for some projects. F. Brown asked if the expansion areas are part of the EPA Consent Decree. Charlie Martin, Director of Water Quality, explained how the consent decree does go through the exaction process. He pointed out the infrastructure for the expansion areas was outlined in the expansion area master plan, which folded into the consent decree. It was clarified that existing infrastructure under the consent decree is not impacted by exactions. Bencz said of the 40 agreements under the exactions program, about 35 of them are closed out. Wes Holbrook confirmed the exaction funds are included in the annual financial audit of LFUCG, ensuring all the transactions are accounted for properly.

A motion was made by F. Brown to refer an audit of exactions for the existing 40 agreements by the Internal Audit Board. Discussion on the motion included the following. Farmer asked about the efficiency of the board to execute an audit in relation to the timeliness of this item in committee. F. Brown said he would get an estimate of how long it would take. He clarified that this is not looking at the program, or rate table increases, instead it would look at the fees and credits for each agreement. Kay confirmed the audit would review the program to ensure it is doing what it is supposed to do.

<u>A motion by Fred Brown to refer an audit of the exactions for the 40 agreements to the Internal Audit Board, seconded by Chuck Ellinger II. The motion passed without dissent.</u>

Lamb distinguished the issues with the exactions program are with the process and not as much about the fees, highlighting the need for a more robust discussion about the process. Kay reference the proposed exaction rate table updates on page 57 and 58 of the packet, most of which Bencz said proportionately decreased except the non-residential zones. Kay said he would like to see the present rates cpmpared to the proposed rates with the rationale for the change.

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

IV. Economic Development Downtown Lexington Partnership

Terry Sweeney, Downtown Lexington Partnership President and CEO, explained how DLP formed one year ago; highlighting their initial focus on research and stakeholder engagement while developing new partnerships and launching a number of new programs. He reviewed how the Downtown Lexington Corporation, Downtown Development Authority, and the Downtown Lexington Management District function together under the DLP. He said their goal is to create an economically powerful, vibrant downtown. He highlighted a vast variety of accomplishments during the first year, such as an economic impact study of the downtown, a study of Short Street, a property improvement grant program, placemaking grants, assistance to developers, the management of DLMD programs, a new brand for the organization, the development of a merchants association, plus over 60 events that brought 200,000 attendees downtown. Finally, he pointed out more than $370,000 collected through memberships and sponsorships.

Moloney referenced economic development as a responsibility of DLP after the three organizations merged together and asked for the number of jobs they have helped to create. Sweeney explained that DLP does placemaking, planning, and development, which is slightly different than economic development. Moloney asked about the jobs DLP has created and how DLP differs from Commerce Lexington because he wants to ensure the city's money is in the right place. Sweeney said he would get this information to him. He asked about the downtown receiving this money versus areas such as Southland Drive, Fayette Mall, and Hamburg that do not receive funding. Sweeney said DLP receives $40,000 under the PSA for events and $363,000 for the DDA. He also pointed out the downtown generates an economic impact of $3.5 billion; that's $1.4 million per acre compared to the county average that is around $190,000 per acre.

Evans asked about the makeup of the Downtown Lexington Management District board. Sweeney said one of 15 board member seats is reserved for residents in the area. Evans recommended the board consider a more even representation of residents and business owners.

Steve Grossman, Chairman of the DLP board, added that there is not much overlap between Commerce Lexington and DLP.

No further comment or action was taken on this item.

V. Items Referred to Committee

No comment or action was taken on this item.

CM Bledsoe noted that she would report the summary of this meeting out in April because this committee does not meet again until June.

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

The meeting adjourned at 2:59 p.m.

H.A. 4-23-19