



Budget Committee of the Whole
April 22, 2014
Summary and Motions

Vice Mayor Gorton called the meeting to order 1:00pm. Council Members Ellinger, Kay, Ford, Akers, Lawless, Beard, Stinnett, Scutchfield, Myers, Clarke, Henson and Lane were present. Council Members Farmer and Mossotti were absent.

1. Mayor's Proposed Budget – Revenue, Debt and Capital

Commissioner O'Mara started the presentation. Dr. Chris Bollinger, Director of UK Center for Business and Economic Research (CBER), provided assistance with the LFUCG Tax Forecasting Model. O'Mara walked through the information. In general, employment has been on the rise since 2009. Wages and salaries had a dip during the recession but we have now recovered and passed the pre-recession peak. The gross domestic product for Lexington MSA has recovered and we are on the same path as pre-recession levels.

Based on the Occupational Tax Model, the Occupational Tax prediction for FY2015 represents a 4.3% growth and a budget of \$175 million in employee withholdings.

Based on the Business Net Profits Model, the Net Profits projection predicts a 5.9% growth and a budget of \$35.3 million. They urge caution with this model prediction and to also add our (LFUCG) observations and feel for how revenues are actually going in the Urban County Government.

FY15 Mayor's Proposed Budget - Revenue

Rusty Cook presented on the revenue proposed in the FY15 Mayor's Proposed Budget. Cook stated that the FY15 revenue budget is \$313.2 million, which is a 3.8% increase over the FY14 forecast.

Cook commented on the revenue sources in the General Fund. Employee withholding is budgeted at \$174,750,000, which is a 4% increase over the FY14 projection and a 5.1% increase over the FY14 budget and assumes improvement in employment and the local economy. Business Net profit is budgeted at \$35,175,000, which is a 5% increase over the FY14 projection and a 5.4% increase over the FY14 budget and assumes growth in business activity. Insurance premium tax is \$27 million, which is a 1.9% increase over the FY14 projection and budget.

Insurance premium tax revenue tends to be cyclical and assumes flat risk rates for the state. Franchise fee is \$21.5 million, which is a 2.4% increase over the FY14 projection and a 6.3% increase over the FY14 budget.

The Urban Services Fund is budgeted at \$37,119,520 for FY15, which is a 1.4% increase from the FY14 projection and a 1.3% increase from the FY14 budget. This reflects a 2.1% increase in total Realty Tax revenue and flat commodity sales. There is a transfer from the General Fund of \$2.3 million for the street light program.

The Sanitary Sewer Fund is budgeted at \$49,555,430 for FY15, which is a 0.3% decrease from the FY14 projection and a 6.6% increase from the FY14 budget. User fee revenue is flat over FY14 projection. There is a decrease in interest revenue due to draw down on capital funds. \$37.27 million in KIA loan proceeds assumed for capital program.

The Water Quality Fund is budgeted at \$13,111,250 for FY15, which is flat from the FY14 projection and a 3.7% decrease from the FY14 budget. No KIA proceeds budgeted in FY15. Reflects flat revenue in user fees.

The Landfill Fund is budgeted at \$6,983,600 for FY15, which is a 2.7% increase from the FY14 projection and a 0.8% increase over the FY14 budget.

Stinnett asked if the 3.8% general fund increase was over the revised 2014 estimate. Cook said that is was.

Henson asked if the insurance premium included health insurance. Cook said that it includes all categories for insurance. Henson asked if more people becoming insured would effect it. Cook said that we could see some increase but he did not have any numbers looking forward to project it.

Kay asked for an explanation on what the fee is actually applied to. O'Mara stated that the only thing that is assessed an insurance premium tax are individual plans and group plans are excluded. Barberie said he would send a copy of the statute which articulates what is included and what is not. Kay added that the KY plans are group plans and would not be taxed. O'Mara will follow up and be sure that is correct.

Henson asked why one group would not be taxed and another would be taxed. O'Mara will send something to Council Members to address this issue.

Kay asked if we were subject to state regulations or can we make the decision. O'Mara stated that we have control over the amount (percentage) but we do not have control over what it is assessed on.

Akers asked what the assessment value is now. O'Mara said it is 5%. Akers added that we can raise that but we can't say who pays it. O'Mara stated that we can't decide whose insurance it is assessed on. Akers added that we set the rates. O'Mara confirmed.

Lane asked if they had also projected into the future beyond FY15 because he wanted to know if there were numbers for bonding. O'Mara said that would come in the next section of the presentation on bonding and there were revenue projections that went along with that.

Myers asked Barberie if it was possible that we could increase assessments on one policy versus another. Barberie said they would have to look at that issue before giving a conclusive answer.

Gorton asked if we currently needed Landfill Funds to cover the closures. She doesn't think we have a landfill currently. Martin said we have long term obligations on the closure and the Solid Waste Task Force was looking very closely to determine if the current dollar amount was appropriate.

FY15 Current and Proposed Bonding

Commissioner O'Mara discussed existing bonds, which represent all project bonds that have been issued and the city is paying debt service. These will end in about 2035. The Mayor's Proposed Budget for FY15 proposes \$25 million in bonds, FY16 proposes \$20 million in bonds and FY17 proposes \$15 million per year going forward. There are needs delayed during the recession and these numbers were modeled to represent what it would look like under that assumption. We have a 10% of revenue target for debt service.

O'Mara provided information on the \$40 million project bond proposed for Rupp Arena. It would have no impact on the FY15 budget as the payments would show up in FY16 and continue on for the life of the bond.

O'Mara commented on the pension bonds, which unlike the others are taxable because they are not project related. When these are added, we are above our 10% goal and will be until about 2023 under this scenario. We will grow out of it with increased revenue and controlled spending.

Lane asked if the bond debt included all debts. O'Mara said this is general obligation debt which is supported by the General Fund. Lane asked if there was other debt besides bonds. O'Mara said not of a material amount and added that this was before subsidies to the debt service. Lane asked what rate of interest we are projecting on future bonds. O'Mara said they started at 3%, in FY16 they used 3.5% and for FY17 and beyond they estimated 4%. Lane asked what the total bond debt would be if you included everything (sanitary sewer, etc.). O'Mara said he will send that information.

Stinnett asked for more detail behind the chart and asked O'Mara to go through this information briefly. O'Mara commented on the chart adding that he would get the number for the total sewer debt which is the missing piece. Stinnett asked for a copy of the chart. O'Mara will provide. Stinnett asked if the amount in the budget was net of the Municipal Aid Program (MAP). O'Mara said it was. Stinnett asked what the first year of the pension bond was. O'Mara said 2009. Stinnett stated that we began taking about the 10% goal in 2008 before there were any thoughts of pension bonding and added that even though the pension bond puts us over today, we are still below if you add up all the other categories, including the Rupp project. Stinnett asked which bonds dropped off this year. O'Mara will send that information to Council. Stinnett asked if the \$15 million project will hold. O'Mara said this was one scenario of how we would meet that. Stinnett asked if this included any additional bonds for resurfacing. O'Mara said it does not and there is information on that later in the presentation.

Kay asked about the decline in the chart in 2023. O'Mara said there were some bonds that drop off and will be fully paid. He can send a list of which ones. He did not come prepared to discuss specific bond issues. Kay asked about the projection in 2037, will it flatten out and balance. O'Mara said that it would slowly rise if we continue to bond but they only projected out that far.

Ellinger asked about clarification on the bond chart. He would like to see the chart changed to show the items we are currently bound to pay on the bottom and project the new bonds on the top to get a better idea of what our current obligation is and what we actually have to spend each year compared to the goal. O'Mara will make these changes and redistribute.

Akers agrees with Ellinger that it would be helpful if the chart is rearranged. Akers asked why the \$40 million proposed bond is separate. O'Mara stated that it is a stand alone project.

Ellinger asked if they could add in what we have to spend each year for proposed projects as well as what it will be for Rupp. O'Mara clarified that they would like a spreadsheet for annual components. Ellinger agreed. O'Mara has that information but was concerned that it was too busy but he will distribute that to Council.

Lane commented on the new City Hall and other capital investments that may be required over the next 10 years.

Beard commented on the \$40 million for Rupp Arena adding that as it currently stands, there are no funds from UK or the state so if we proceed, we will be adding bonds every year for this purpose. Frank Butler stated that the \$40 million presumes that the other financing comes together. If the state and UK do not contribute, there is no need for the \$40 million. Beard stated that this still will only cover a third of what needs to be done by 2017 based on numbers that have been released. Butler stated that the plan calls for an annual \$10.7 million contribution from UK, an \$80 million contribution from the state and \$40 million contribution from the city in addition to other revenue generated by the activities of the Lexington Center Corporation. When these are added together, it is sufficient funding for the \$175 million

renovation of Rupp and the \$110 million reconstruction of the Convention Center. There is no anticipation that the project would come back and ask for any additional funds from the city. This is a one time request. Beard understands that, but wanted to know if the bonds would still be issued if the state and the University do not contribute. Butler said the bonds would not be issued without the support of the partners.

Stinnett asked for the chart to include the debt service payments. The issue is not really the bond but the payments, which will take away from other important projects. This will result in \$2.5 million additional coming from the general fund to cover the Rupp bond. O'Mara clarified the request. Stinnett compared it to living on a credit card. The path is not sustainable at the current rate and we should only grow our debt for priorities and needs.

Ford plans to bring up the issue of Rupp at the work session, not in regards to bonding. Ford asked if there were any funds for repairs to the existing Government Center or building a new one. O'Mara stated that there are dollars budgeted for repairs, not only for the Government Center but for all buildings owned. There is currently an RFP out for a new Government Center. There is an idea being developed to build a new center and will be revealed when it comes together. Ford asked if we would have to incur long term debt to build a new Government Center from a forecasting standpoint. O'Mara said there was nothing included in the forecast for this since it had not been fully vetted at this time. Shapiro commented on why there was no money set aside for the public-private partnership. There is a chance we won't have to bond or may bond something less than \$30 million (lease option).

Kay asked if the projected amounts were place holders for any projects that may come up. O'Mara said that was correct. He did a scenario to project future years and to do that we have to make assumptions so he picked a few for the model. Kay asked why we bond. O'Mara said it is always best to pay cash but many cannot afford to do that or feel that the benefits of doing it now are not good enough to not take on debt. These are usually things that have a future useful life. Bonding is competitive and usually a low rate, non-taxable and usually lower than bank rates. It is a low cost for capital financing.

Gorton asked if the blue line is for the Rupp project. O'Mara said it was modeling for the Rupp project. Gorton asked if there was any reason that we would have to authorize these bonds now to sell next spring since the state is out and the University is out and we are the only entity with funds still in this project. Is there any reason we cannot wait to authorize them. O'Mara stated that the issuance of bonds is at the discretion of the Council. The authorization is not an edict to issue. This can come at two different times. Gorton asked what is the latest Council can decide to authorize, adding that it will be a year before the state legislature meets again so there shouldn't be a rush. O'Mara clarified that he was not advocating for this, he was just providing the information. Authorization can be at any time between now and the issuance of the bonds. Butler commented on why now. The other parties want to see that they city has approved funds for the Rupp project conditional on the others putting in their support. Butler feels this will help when he and Mayor Gray go to the legislators to negotiate. Gorton asked if

there was any difference between April and November 2014, realizing that those involved would prefer sooner rather than later. Butler said they will negotiate again in June and it would be helpful if there was support from the city. Gorton feels the most important thing would be for the Council to finally have a discussion about the Rupp project, which will help everybody sort through all of these things.

Ellinger asked Butler if the \$40 million was all we would be asked to put into this. Butler said yes. Ellinger asked about the other numbers provided. Butler stated \$10.7 million from the University adding that we are asking the University to invest over \$300 million in Rupp over 30 years and they don't own it, the city does, we are asking the state to put in \$80 million and they don't own it, the city does. The city is being asked to put \$40 million into a building they own and it is a one time request. Ellinger asked O'Mara to separate out existing debt service payments from future debt service incurred with new bonds when he sends the annual payment information to Council.

Lane asked Butler if the Urban County Government had any obligation outside of the \$40 million in the event of a shortfall. Butler said we basically have the obligation for the Lexington Center Corporation now so that doesn't change. LFUCG would have the obligation for any debt that the Lexington Center Corporation takes on.

Stinnett asked if there was a way to show a 3% inflation rate to the chart for the model. O'Mara said they can do that but he did not do that for this scenario. Stinnett feels that would be a more accurate assessment. Stinnett asked Butler what the return on the investment is. Butler said the upside is in the details in the contract with the University which were not included because they would wonder where it came from. There is an upside in food and beverage and media. There would be a capital reserve created, which does not exist now. Rupp operates pretty much on a break even basis and does not have capital for repairs. Butler said there is a substantial return but they can't put a number to it. Stinnett stated that Butler is only focusing on the Rupp piece, what about the convention center. Butler said that was minimal. The convention center does not make money on its own, it is subsidized by Rupp. Butler added that they built in an increase for revenue but were very conservative because part of the project requires a 14 month blackout period during which time the convention center will be closed. Once it is reopened, it will take time to recover. Stinnett asked when the public and the Council would see the detailed plan. Butler said they can do that whenever they are ready now that the session is over, they can do it one-on-one if the Council would like. Stinnett stated that he felt it was more important for the public to hear it and understand what they are trying to do and why the Council would even consider issuing a bond.

Scutchfield reminded Butler that she had requested a 5 year past profit for Lexington Center looking at the ROI in the future. She has not received this and it would be helpful for the Council to see when making decisions. Butler said they would get that but they had been otherwise engaged.

Gorton commented in response to Scutchfield that at the last Lexington Center Board meeting, they looked at numbers. The only two net profit generators are the Hyatt and the arena. Gorton added that others do have an economic impact on our community (Opera House, Triangle Park, etc.). What happens when the convention center goes dark and all of these businesses are closed for a year or two years. This is a future conversation but it is a major conversation.

O'Mara discussed the FY15 bonding for the Sewer Fund. \$37 million in KIA loans and cash reserves will be used and no new money bond will be issued. Existing sewer bonds will be restructured to allow more favorable debt covenants (will better position LFUCG to issue debt to support EPA consent decree).

Lane asked what the estimate is for the total bonding of the EPA consent decree. O'Mara said there is a model and he doesn't remember the three pots right now but it depends on how things come in. It is updated about every 6 weeks or so and they are having it reviewed by an outside entity to be sure there are no mistakes since we will be using it for a while. Lane requested that this information be sent to Council when it becomes available.

Melissa Lueker walked Council through the list of capital items included in the FY15 proposed project bond for the General Fund.

Myers asked if the pothole patcher was a machine or if it was materials and labor to fill potholes. Lueker said it is actually a machine. Myers asked if it was the same one we looked at last year. Lueker said it was the same one that was included as a fund balance request last year and removed.

Akers asked if the roof repair and replacement HVAC was for the Downtown Arts Center. Lueker said the roof repair was for the Carnegie Center, Downtown Arts Center, General Services Building and Police Headquarters.

FY15 Cash Funded Capital

Lueker walked Council through the list of cash funded capital items for FY15 in the General Fund and Urban Services Fund. Lueker commented on the plan for road resurfacing. The FY15 budget does not include any bonds for resurfacing.

Myers asked if it was possible to get detail on the larger items on the list for cash funded capital. Lueker said they will send it.

Stinnett asked what wasn't funded. Lueker said she has a list and will provide that. Stinnett asked if the road funding was for major roads or neighborhood roads. Lueker said they did not split those and it would be up to Council to decide.

Myers asked for detail on the different accounts (coal severance, etc.). Lueker said she will send that information.

Gorton asked that it be sent to all Council members.

2. Upcoming Budget COW Meetings

Gorton pointed out that the next Budget COW meeting is the Discussion & Analysis of the Mayor's Proposed Budget on April 29th at 2:00pm in the Chamber.

Ford asked about late items, what defines a late item. Lueker said the late items include errors or omissions in the Mayor's Proposed Budget, no new projects.

Gorton asked if things approved by Council between the budget address and late item deadline would be added. Lueker said that any items approved between now and the late item deadline will be included.

Motion by Kay to adjourn. Seconded by Ellinger. Motion passed without dissent.