



LEXINGTON-FAYETTE URBAN COUNTY COUNCIL

BUDGET COMMITTEE OF THE WHOLE (COW)

REVENUE, DEBT, AND CAPITAL

APRIL 25TH, 2013

SUMMARY

Vice Chair Linda Gorton called the meeting to order at 3:30pm. Council Members in attendance were Steve Kay, Julian Beard, Shevawn Akers, Chuck Ellinger, Harry Clarke, Jennifer Mossotti, Kevin Stinnett, Jennifer Scutchfield, Chris Ford, George Myers, and Diane Lawless. Council Members Peggy Henson, Ed Lane, and Bill Farmer were absent.

1. FY 2014 MPB – Revenue, Debt, and Capital Presentation

Melissa Lueker, the acting Budget Director, came to the podium to begin her presentation. She introduced Christopher Bollinger, the Director of the Center for Business and Economic Research.

Bollinger said that revenue has six major components; occupational tax, net profit tax, insurance, franchise fees, property tax and other. Occupational tax and net profit tax are the largest revenue sources but they are also the most volatile. He said that predicting these sources of revenue is very difficult.

Bollinger said that we are seeing rapid employment growth in Lexington. Earnings are also increasing. The occupational tax is also upward trending. GDP was slightly flat for 2011. The net profit tax has been flat lately.

Bollinger provided the Council Members a net profits forecast. He said that overall, the net profits and revenue have been slightly lower than predicted. He said that the occupational tax is easier to forecast. The model for 2012 is based on actually earnings in the US and 2013-2015 are based on Congressional Budget Office (CBO) projections for those earnings.

Kay asked Bollinger about the difference between the model and the augmented model. Bollinger said that the augmented model is the closest to his best guess, but is slightly pessimistic. Bollinger said that his view of the economy changes daily.

Clarke asked why the GDP charts only illustrated data through 2011. Bollinger said that he does not have the 2012 numbers. They will be released late summer 2013. The Bureau of Labor Statistics has not released them yet.

William O'Mara, Finance Commissioner, came to the podium to present on the Mayor's Proposed Budget – Revenue. O'Mara said that the employee withholdings, at \$168,405,000 are 3.0% over the FY13 projection and 4.0% over the FY13 budget. Net profits, at \$29,725,000 are a 2.5% increase over the FY13 projection and 9.8% decrease from the FY13 budget.

Stinnett said he was glad to see that things were more optimistic than before. Stinnett asked what the LFUCG will do if the numbers are off. O'Mara said that they will control expenses first and then go to fund balance. Stinnett said that he supports an emergency financial safety net. Stinnett suggested creating a true rainy day emergency fund.

Mossotti asked if \$1.5MM is the actual fund balance. O'Mara said no, it is the budgeted fund balance.

O'Mara said that insurance is still tracking strong at \$25,500,000, a 5% increase over the FY13 projection and 9.5% increase over the FY13 budget. This category is elastic.

O'Mara then spoke about the franchise fee. He said that the MPB for FY14 is \$22,700,000, a 21.4% increase over the FY13 projection and a 7.2% increase over the FY13 budget. This number reflects a 1% increase in gas and electric utility franchise fees for entire year.

Gorton asked O'Mara if the budget assumes an effective date of July 1, 2013, and asked if timing will be a problem with utility bills. O'Mara said the utility companies have asked for 60 days to implement the increase. The Administration would need an approval for this increase sooner rather than later.

Gorton asked O'Mara if the Administration is going to bring anything forward to Council involving the potential fee increase. O'Mara said that the Administration wanted to hear how the conversation went at the Budget COW.

O'Mara said the Urban Service Fund, at \$36,102,720 for FY14 reflects a 1.2% increase from the FY13 projection and a 1.9% increase from the FY13 budget. This number reflects a 5.3% increase in commodity sales. It also includes a transfer from the General Fund for \$2.5MM for the street light program.

Kay asked how the transfer for street lights shows up in the budget. O'Mara said it will show up as a positive transfer into the Urban Service fund.

O'Mara told Council Members that there will be \$2.5MM from FY13 fund balance and \$2.5MM transferred from the General Fund in the FY14 budget.

Ford asked why there is a deficit in the Urban Services Fund that requires these transfers. O'Mara said that the street light funded program is \$6.5MM. O'Mara said that the current funding source is 2.1 cents per \$100 of assessment, which generates \$4MM. There is a lack of

\$2.5MM to cover the program. The Administration has recommended that the shortfall be funded through a transfer from the General Fund.

Clarke asked about the 1.5% increase in property tax revenue. O'Mara said that the LFUCG has two components of the property tax. O'Mara said that Clarke was referring to the General Fund component. The rate is 8 cents per \$100 of assessment and 5 cents of the 8 cents goes to the library.

Stinnett asked what the capital need for street lights is. O'Mara said that they budget for a cost of \$300,000 per year. O'Mara said that the lead time for installation is very long. Stinnett said that they may need to discuss this at a future meeting. Stinnett said that this is a policy issue. He suggested considering two funding sources for street lights.

Stinnett would like a presentation from O'Mara on the history of street light funding. O'Mara agreed to present on the topic. O'Mara said that there are both neighborhood street lights and shared community street lights. Stinnett mentioned the not for profit entities that do not pay for streets lights. Stinnett said that the LFUCG has never raised the rate, in fact, it has decreased it twice. Stinnett asked that the street light presentation take place very soon.

Gorton suggested that O'Mara start the discussion at the April 30, 2013 Budget COW.

Mossotti said that the LFUCG is not going to be able to catch up unless they make a policy change.

Lawless requested that the Council have a similar conversation about street sweeping in the near future.

O'Mara said that the Administration is proposing \$46,180,100 for FY14 in the Sanitary Sewer Fund. It is a 0.7% increase from the FY13 projection and a 3.7% increase from the FY13 budget.

O'Mara said that the Administration is proposing \$13,618,800 for FY14 in the Water Quality Fund. The number reflects \$2.1MM in KIA Loan proceeds and is a 2.8% increase from the FY13 projection and a 5.6% increase from the FY13 budget. The number also reflects increased revenue in User Fees.

O'Mara said that the Administration is proposing \$6,926,530 for FY14 in the Landfill Fund. The number reflects a 0.8% decrease from the FY13 projection and is flat compared to the FY13 budget. The number also reflects a loss of \$60,000 from C&D fees due to the closure of the landfill.

Stinnett asked O'Mara about the loss of \$60,000 from C&D fees. O'Mara said that we are now paying fees to dump waste since our landfill is no longer open. O'Mara said that he can get the amount we are paying from the expense side.

Akers asked O'Mara about franchise fees on other utilities, including cable. O'Mara said that we do collect fees from cable. We get a monthly check from the State of Kentucky for the excise tax.

Lueker began presenting on our current debt. She noted the strain that the pension bonds have put on our debt service requirement. Lueker went on to illustrate the anticipated debt services for the \$500,000 bond that is the FY14 MPB. The new debt service number is \$34.9MM. Lueker reminded the Council Members about the transfer of MAP funds to pay for the debt service on the paving bond.

Lueker said that we will not reach our goal of 10% debt service until 2017.

Mossotti asked about interest rates on the debt. Lueker said that she will have to get the numbers to Mossotti. She said they vary. Gorton suggested Lueker send those numbers to all Council Members.

Clarke asked about the increase in pension bonds in 2018 over 2017. O'Mara said that there are different structures for different bonds. He said leveled payments do not always occur.

Lueker gave the Council Members an overview on the CIP Criteria:

- Division Priorities
- Health and Safety Impact
- Quality of Life Impact
- Implications of Deferral
- Impact on other Capital Projects
- Outside-LFUCG Funding Sources

Lueker said that they went back to speak to Directors about their priorities. Lueker highlighted specific projects.

- \$1.25MM for Arena Arts and Entertainment District Redevelopment
- \$1MM for PDR
- \$350,000 for Corridor Program
- \$5MM for Senior Center
- \$3MM for New Police and Fire Vehicles
- \$15.6MM Total Bond Projects

Kay asked Lueker about the Community Action facility roof. CAO Sally Hamilton said that the building has a 99 year lease for \$1. Hamilton said they are in discussions with the Community Action Council about potentially turning the building over to them because there are numerous repairs needed. Gorton asked when the lease was negotiated. Hamilton said that she will get that information to Gorton.

Akers asked Lueker what the Code for America is. Lueker said that it is non-profit organization made up of technology and web experts and city leaders. Akers then asked about Acella. Lueker said it would expand the technology that the Division of Water Quality uses to Building Inspection, Planning and possibly Code Enforcement. Lueker said it would be part of a one-stop shop that has been discussed.

Beard asked Lueker about the Picadome and the Tates Creek golf carts. Lueker said that the Picadome carts use gas, making them more expensive.

Scutchfield asked for more detail on the bond projects requested by Computer Services. Lueker agreed to get that information.

Lawless asked about the bond that was issued for golf carts a few years ago. Beard said that he thought those carts were purchased for Avon. Lueker said that she will get more information from the Division of Parks and Recreation on them.

Gorton asked for more information about Code for America. Hamilton said that Jamie Emmons just prepared an email that was sent to Ellinger, Myers, and Lawless on the issue. Hamilton said that she will send that to all Council Members. Gorton asked for the specifics on what the \$180,000 is.

Stinnett said that the Links process is to discuss these requests in detail. Stinnett asked Lueker if some of these items could be paid for with cash instead of going into debt. Lueker said that the CIP requests totaled \$40MM. Lueker said that they looked back at old bonds to see if some of those proceeds could offset some of the CIP requests. Lueker said they are also funding some of the CIP requests with cash.

O'Mara said that cash is king. He would always rather pay cash than bond if they have enough saved as well. O'Mara said that they shouldn't use one time monies for an ongoing expenses. He said that capital projects are often a great use of the fund balance.

Akers asked if they should try to pay down some of our bond debt with fund balance. O'Mara said it depends if the bonds have the ability to make extra payments. Most of them have call dates and you cannot make extra payments. With some bonds, they can refinance to lower payments. O'Mara said the more advantageous way to pay for things is to pay cash as you go instead of bonding.

Akers asked Hamilton if she has examined the Community Action lease. Hamilton said Geoff Reed is looking at all types of alternatives. Hamilton said she will check to see which of their buildings we own.

Lueker spoke about capital reallocation. Lueker said they looked at projects that are complete, project balances and projects with no activity.

Lueker said they looked at projects that have shorter life spans. She mentioned computer projects and wayfinding signs. She said that they are not going to bond additional dollars for wayfinding signs if there is money available.

Lueker mentioned radios. CAO Hamilton is leading a group to coordinate the efforts to purchase the radios for all the divisions that need them.

Lueker said that Phoenix Park upgrades are included as well.

Akers asked about the Shillito multi-use fields. She wanted to know if this project was included as a capital request this year. Lueker said yes, they were a part of the \$40MM in capital requests that were submitted by Divisions.

Scutchfield asked Lueker about the wayfinding program. Scutchfield asked about the original scope of the project. She went on to ask why the cost per sign had increased from \$7,500 to \$25,000 a sign. Lueker said she had to check with Kevin Wente. Lueker said she will get Scutchfield the information.

Lueker moved on to discuss operating capital that will be cash funded. She said that they will lease 600 computers each year. They will keep them for four years and then replace them.

Lueker said they have budgeted for \$4.6MM in the Urban Services Fund for operating capital. In the MAP Fund, they have budgeted for \$1.2MM in projects. In the Sanitary Sewer R&O Fund, they have budgeted for \$6.3MM in projects and in the Sanitary Sewer Construction Fund they have budgeted for \$40.2MM in projects.

Lueker went on to say that they had budgeted for \$2.9MM in the Water Quality Management Fund, \$1.4MM in the Landfill Fund and \$2.2MM in the Enhanced 911 Fund.

Gorton said that the Council would discuss the streetlights at the April 30, 2013 Budget COW.

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

Submitted by Jenifer Benningfield, Council Administrative Specialist