Budget, Finance & Economic Development
February 28, 2017
Summary and Motions

Chair Stinnett called the meeting to order at 1:10 p.m. All committee members were in attendance.

I. Approval of January 31, 2017 Committee Summary

A motion was made by Scutchfield to approve the January 31, 2017 Budget, Finance & Economic Development Committee Summary & Motions, seconded by Bledsoe. The motion passed without dissent.

II. Downtown Development Authority Update

Stinnett introduced Tom Harris with Lexington Downtown Development Authority, who presented an update on the consolidation of downtown organizations. He reviewed the consolidation plan including the creation of a new legal entity to oversee the duties of Downtown Development Authority and Downtown Lexington Corporation. Harris said they would like to have this completed and a committee in place by the end of this Fiscal Year, operating as a new entity July 1, 2017.

No further comment or action was taken on this item.

III. January Financials General Fund

Bill O'Mara, Commissioner of Finance, presented the January Financials. He reviewed the comparative unemployment rates and economic indicators.

Moloney expressed concerns about the numbers presented. He said he has a report that shows areas of Lexington having a 20% unemployment rate. He added that we need to fix the problems in areas where unemployment is high. O'Mara said he can bring unemployment figures by Census track. Stinnett responded yes, perhaps once a quarter. O'Mara said he can do that.

Rusty Cook, Director of Finance, presented the Big Four Revenue categories.

Commissioner O'Mara presented the other Revenue and Expenditure categories for January.

O'Mara said we are over personnel budget by $3.9 M which is a result of a combination of things including salaries and overtime, sick pay-outs and retirements occurring in January, and medical subsidy. He thinks the $3.9M variance will diminish as we get closer to Fiscal Year-end. He said we have a favorable variance in our operating budget. He thinks this favorable variance will diminish as 4th quarter contracts and projects are done.

Moloney asked about the shortfall of MAP money asking if we paid employees with MAP money as we have in the past. O'Mara said there are salaries and debt service on the $13 million bond from two or three years ago charged to the MAP fund. Moloney said for as long as he has been on Council that money has been used for Public Safety or road pavement and those sorts of things. Moloney asked for a list of reclassifications by Division for the last 5 years including their salary at the time and what they are making now. And he also wants to see salaries being paid with MAP money.

Mossotti asked what divisions had large amounts of overtime. O'Mara said he thinks Corrections and Fire, but he thinks there are other divisions as well; he said he will follow up.

Farmer asked if it would take very long to accumulate the information for Moloney's request. O'Mara said they have the current year but he is not sure how long it will take to go back 4 years. Farmer said he is interested in knowing how much time will be spent on the request and what will be done with the information once it is collected.

Stinnett wanted to be clear on exactly whose salary is being paid with the MAP money. O'Mara said it is primarily Engineering and they are the ones working on MAP projects. Stinnett wanted to clarify that it is not being used government-wide, but directly on MAP projects. O'Mara said that is correct.

Stinnett asked what would be included in the 5-year reclassification report and will it include the compensation study we had done and will the ones recommended by the consultant that we approved be included in the reclassification report. O'Mara said he had not thought of that, but that would have been during the 5-year period. Stinnett said yes and that will throw a lot of things off. He asked if those that were done as a result of the compensation study can be separated out because that is not a normal re-class. CAO Hamilton said re-classes can be broken out easily because we did not do re-classes for several years.

Stinnett asked about medical bills that were more than we had anticipated budget-wise and will we use the health insurance reserve fund that we set aside to offset the payroll costs for that. O'Mara said he hopes we can manage our pressure on the revenue and the pressure on the personnel with the favorable variances in operating and debt service so we can have a balanced budget where expenses do not exceed revenues. He prefers not to go to the fund, but that is what it is there for if we have pressure and cannot absorb it.

Evans asked about the healthcare fund and what are the conditions or reasons for using that. O'Mara said he hopes we don't have to use it by managing the expenses in the current year budget to absorb that overage. Evans asked when it is supposed to be used because it sounds like we may have to use it; she asked if there was a standard or policy that determines when it is used. O'Mara said either in a cash flow issue in order to pay claims or on the expense side which would be the amount over budget in order to balance the budget. Evans asked if this is something that is regularly reported to us or how would we know when we are getting to that point. O'Mara said their monthly and year-end management reports. Evans expressed concerns about MAP funds going to personnel, thinking those funds were used for actual projects. O'Mara said it has been part of MAP budget since the current administration has been here. Each year when the MAP budget is presented there is a personnel line, a debt service line after bonds were made, and project funds line. Evans said the personnel are working on several different projects not just the MAP fund project. O'Mara said only a percentage of their salary is charged to the MAP fund which represents their time that supports the MAP fund projects.

Moloney asked if we would not be able to bond anything next year. O'Mara said that is not correct. He said they will be looking at a recommendation to Council in the Mayor's proposed budget as to the size of the bond and what projects would be included in a bond. Moloney asked if we are going to bond the new government building. O'Mara said they are not prepared to submit a bond package to Council today. Moloney expressed concern that he sees mistakes in personnel and we are not fixing them, we are continuing to let them get worse.

No further comment or action was taken on this item.

January 2017 Monthly Actuals Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	%Var
OLT- Employee Withholding	15,469,128	10,364,310	5,104,818	49.3%
OLT - Net Profit	1,158,924	1,701,914	(542,990)	-31.9%
Insurance	4,916,087	2,248,741	2,667,346	118.6%
Franchise Fees	1,898,491	1,961,452	(62,961)	-3.2%
TOTALS	23,442,630	16,276,417	7,166,213	44.0%

January 2017 YTD Actuals Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	%Var
OLT- Employee Withholding	109,299,200	105,164,267	4,134,933	3.9%
OLT - Net Profit	12,372,235	14,225,248	(1,853,013)	-13.0%
Insurance	19,938,998	16,940,518	2,998,480	17.7%
Franchise Fees	13,544,034	14,057,037	(513,003)	-3.6%
TOTALS	155,154,467	150,387,070	4,767,397	3.2%

Cash Flow Variance - Revenue

For the seven months ended Jan 31, 2017	ACTUAL	BUDGET	Variance	
Revenue				
Payroll Withholding	$109,299,200	$105,164,267	$4,134,933	4%
Net Profit	12,372,235	14,225,247	(1,853,012)	-13%
Insurance	19,938,998	16,940,518	2,998,480	18%
Franchise Fees	13,544,034	14,057,037	(513,003)	-4%
Other Licenses & Permits	3,685,343	3,566,666	118,677	3%
Ad Valorem	20,206,012	20,264,863	(58,851)	0%
Services	13,553,052	12,314,992	1,238,060	10%
Fines and Forfeitures	186,593	163,448	23,145	14%
Property Sale	107,470	179,081	(71,611)	-40%
Intergovernmental	307,532	200,798	106,734	53%
Investment Income	(137,018)	290,214	(427,232)	-147%
Other Income	1,621,539	1,835,789	(214,250)	-12%
Total Revenue	**$194,684,989**	**$189,202,920**	**$5,482,069**	**2.9%**

Cash Flow Variance - Expense

For the seven months ended Jan 31, 2017	ACTUAL	BUDGET	Variance	
Expenses				
Personnel	($124,356,644)	($120,403,956)	($3,952,688)	-3%
Operating	(22,467,768)	(29,651,614)	$7,183,846	24%
Debt Service	(25,724,172)	(26,659,664)	935,492	4%
Partner Agencies	(12,240,693)	(11,753,167)	(487,526)	-4%
Insurance - Expense	(1,019,355)	(1,229,530)	210,175	17%
Operating Capital Expenditures	(2,339,099)	(3,156,844)	817,745	26%
Total Expenses	**(188,147,730)**	**(192,854,775)**	**4,707,045**	**2%**
Interfund Transfers				
Transfers	(3,230,288)	(2,464,429)	(765,859)	
Change in Fund Balance	**3,306,971**	**(5,938,512)**	**9,245,483**	

FY 2017 Code Enforcement Nuisance Abatement/Lien Collections

Month	Administrative Collection Fees		Miscellaneous		Penalty & Interest		Total Collections	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
July	225	476	253	546	15,545	18,043	16,022	19,065
August	1,125	600	802	308	10,163	14,984	12,090	15,892
September	545	969	2,153	2,072	71,212	52,780	73,910	55,821
October	1,275	1,125	2,132	2,115	39,069	45,592	42,476	48,832
November	975	525	962	1,250	27,457	25,220	29,394	26,995
December	300	1,575	1,456	2,626	48,596	61,590	50,352	65,791
January	525	1,200	2,230	2,063	43,903	45,565	46,658	48,828
Totals	4,970	6,470	9,987	10,980	255,944	263,774	270,902	281,224

Comparison of Economic Indicators

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	N/A											
Quarterly Fayette County	2015	-	-	185,062	-	-	189,584	-	-	191,038	-	-	197,966
Employment	2016	-	-	188,039	-	-	192,063	-	-	N/A	-	-	N/A
	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	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-

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

IV. Public Infrastructure Program – Draft Ordinance

Stinnett introduced the Public Infrastructure Program – Draft Ordinance and opened the floor to any questions.

Evans asked about the amount the board will be in charge of and what does the cost cover. She said it says it is a grant, but it sounds like it operates like a loan. She asked what will realistically be covered as far as an infrastructure project. Burton said it is intended to provide a gap financing, not to do an entire project. She asked for an approximation and asked if this is the total amount for the year or if this the amount one applicant can get. Burton said it is for gap financing, they can apply for whatever amount they need to complete the project and it is based on the selection committee to determine what amount they get. She said in a construction project, it doesn't seem like a lot. Evans expressed concerns that this will be something that is available, but no one will use. Burton said there are people interested and lined up to apply.

Mossotti asked where the money comes from. Stinnett said it would have to be budgeted next year. Mossotti said we are looking for someone who is financially viable, but does not have the extra money to go forward and that is the main issue. Burton said yes, and it is cost-benefit ratio.

F. Brown asked what is in the budget currently for this fund and did we have carry forward. Burton said we have nothing; this is a new program that will be funded in next year's budget. F. Brown asked if this will involve economic development and who is running the show. Kevin Adkins said it is a separate board and separate entity. F. Brown asked what would be asked for in the budget. Craig Bencz said it would be $1M over the year for the project. F. Brown said he thinks Council Members should be on the board for oversight. Stinnett said they would be and that will be circulated. F. Brown said he has not seen a board list and asked who is on the board. Stinnett said the chair of the Budget and Economic Development Committee and the chair of Environmental Quality and Public Works Committee. Bencz said that there will be a separate ordinance that comes before Council to create and approve the board. Stinnett said we have not created that yet, we have to do that separately.

Moloney asked about the money used for 21C which we used $6 million of and can go up to $10 million. Moloney said he thought they were supposed to look into that money and asked if anyone has looked into it. CAO Hamilton said that money would be eligible to be used but it would trigger Davis Bacon Act on the project which will trigger federal wage rate and secondly, anyone who uses this money would be obliged to make sure that 51% of the people they hire are low and moderate income. She said this involves a tracking process. Moloney asked if you build a building in a low income neighborhood, does that qualify. She said if it is in a low income neighborhood in a blighted community and can prove that the building decreases the blight, it is a possible eligible activity. Moloney asked if Davis-Bacon goes with the state's *Right-to-Work* or does it go with the federal. CAO Hamilton said anytime we use federal funds, it triggers Davis-Bacon.

Stinnett said if we use the HUD money, we have to track it and he asked if we are tracking 21C. CAO Hamilton said yes and Stinnett asked when it would be reported. CAO Hamilton said it would be due in March and it is very important because the federal government has to see that those jobs are coming in at 51% low and moderate income.

Farmer asked about job creation and capital investment, asking if those would be the 2 product areas or the outcome of this. He asked are you going to be doing something to create jobs or create direct capital investment. Bencz said yes, those are the 2 categories; either creating jobs directly through the expenditure of funds through the completion of the project or there is going to be direct capital investment. Farmer asked if we had an idea how this might break out in terms of who would be submitting applications. Bencz said not at this time, but he thinks it will be market driven as it moves forward and he said the job creation would create salaries above median income for the county. Farmer asked if this was similar to another program we have or if it is a different pool of money. Bencz said it is a different pool of money and it would operate independently and separately.

Kay asked about eligibility requirements under job creation, he said there are yes or no questions and if you answer no, you cannot apply. He also asked about direct capital investment and the eligibility criteria; he said if you comply with any of the criteria you are eligible for support. Bencz said that is correct; and it is clearer under the direct capital investment column. Bencz said the items listed under job creation are meant to provide examples of what would qualify. Kay said some of the criteria should be given higher priority. Bencz said it is not in a priority order at this time and the board can make decisions about that.

Evans expressed concerns about the rush since we do not have the funds. She said if we are going to create another body, she would like to give them more direction than they have right now. She said clearly there are priorities, but we have not set those priorities and she doesn't know what the rush is. She thinks we need to have more discussion and determine the priorities. She said once we give it to the board, we don’t have control of it anymore. She would like a clear understanding of how applicants would be graded and what the economic value would be.

<u>A motion was made by Farmer to move the Public Infrastructure Program – Draft Ordinance to the full Council, seconded by Bledsoe. The motion passed by a vote of 9-1 (Evans – no).</u>

V. PVA’s Analysis of County Tax Valuations

Stinnett introduced David O’Neill, Property Valuation Administrator, who presented the item. He reviewed impact of changes in farm assessments on 2017 revenues for various property taxes.

Kay asked if there is going to be a $150 million in additional assessment for the farm change, why the year to year is not going to increase by the same amount. He said there was roughly a $1 billion increase last year and $1 billion increase this year. O'Neill said he was trying to provide a realistic picture on the high-end to arrive at a bottom-line number to show how farm assessments affect you.

Mossotti asked if it is $150 million more than last year. O’Neill said yes, but the $150 million is not an exact number. He said he is expected roughly a $1.1 billion increase in the tax roll, he was just trying to provide round numbers.

O'Neill continued with the 2017 Tax Roll Projections.

Mossotti asked how many appeals they get percentage-wise. He said it depends, but by the time they get to the Board of Tax Appeals, they have approximately 200-400 appeals out of a total of 30,000 reassessments. He said on commercial property when they do a reassessment, they have tax attorneys that challenge these every year and the percentage of appeals do go up on commercial property. Mossotti asked if they require appraisals. O’Neill said they ask for them and that is looked at and consider that in arriving at their value.

Stinnett asked how many appeals go to court. O'Neill said one time since he has been PVA. Stinnett asked about representation in court and O’Neill said the County Attorney and The Board of Tax Appeals. He said we go to the local Board of Tax Appeals first and then we go to the state Board of Tax Appeals and it’s very rare to take residential assessments to state Board of Tax Appeals because we have a pretty good local board. He said generally commercial assessments go to State Board of Tax Appeals and from there to circuit court, but that has only happened once. Stinnett said for farm owners, this is a radical change for some.

Plomin asked about the notice of the change in tax assessments and how many notices were the 10 acre lots sent in 12th district. O'Neill said about 700; he said in order to qualify for an exemption, you had to have a minimum of 10 continuous acres after you deduct the land that is under the house and driveway and other things used for personal dwelling of property owner. Department of Revenue has come back as a result of investigations and said that we need to enforce the recalculation of 10 acres and that has resulted in about 700 parcels that previously received the exemption no longer will because once you deduct the land under the house, they no longer have 10 acres. Plomin asked about the committee that is supposed to be a sounding board that would consist of people who had 10 acre lots as well as agricultural farms and if that was still going to happen. O’Neill said it is going to happen and what he is looking for is input from people regarding another stipulation of the statute that says you have to have 10 acres to qualify for agriculture; or if you can qualify as horticulture or aquaculture, you only have to have 5 acres; or if you are able to receive payments from a state or federal farm program, there is no minimum acreage requirement.

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

VI. Short Term Residential Rentals

Bledsoe said this item came to committee as a result of constituents calling to see about opening an Airbnb or complaining that a neighbor had opened one. This led to discussions on the subject and working with constituents to make sure they are in compliance. Bledsoe introduced Rusty Cook, Director of Revenue, who presented the item. He discussed the Division of Revenue's role in the short term rental process and compliance issues which includes obtaining a business license and paying a fee. He reviewed the Division of Revenue results including 191 letters that have been mailed to prospective short term rental lessors. Of those 191 letters sent, 56 are licensed, 2 have inactivated and 116 have failed to respond after 2 letters. Cook introduced Mary Quinn Ramer with VisitLex who reviewed a timeline and our approach to this issue. She said they are particularly concerned that the people interested in opening their residence as a short term rental are compliant. By law people operating a short term rental are required to pay transient room tax. Rusty Cook discussed the next steps and what Revenue is doing to help people getting started.

Lamb asked about the breakdown of the $589,208.16 transient room tax and what part goes to LFUCG and what goes to others if we were to collect that. Cook said the $589,208.16 is room revenue, the transient room tax is $35,352 and of that, LFUCG receives a processing fee after VisitLex receives 4.0% and Lexington Convention Center receives 4.5%. Lamb confirmed that the majority of this goes to VisitLex and the Lexington Convention Center and Cook said yes.

Evans asked about communication with Louisville as our direct competitor asking if they have decided not to enforce this. Ramer said Louisville implemented a tight policy at the city level to govern short term rentals in the city. She said if you go to Airbnb web site and you have a property in Louisville that you want to list, there is a message that states the rules and regulations for opening an Airbnb and fees and taxes associated. Ramer said ideally this is what we want to happen in Lexington because it is the same state laws that govern these operations. She said they are the only place in Kentucky with that level of compliance and engagement with Airbnb corporate. Evans asked if there was any information on why they aren't communicating with us. Ramer said probably because Lexington is a small market. Evans asked if the tax would be toward the homeowner. Ramer said it is a pass-through tax.

Stinnett asked if there is a way to log-in and book a room using dummy debit cards to try to catch people. Cook said we have not done that yet. Stinnett asked if was worth our time. Cook said yes it would be very helpful.

Bledsoe thanked Ramer and Cook and she said this is a way to make property more compliant. She it is a way to make things easier by providing a checklist of everything you need to know and do to be compliant.

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

VII. Items Referred to Committee

<u>A motion was made by Bledsoe to remove Combining Economic Development Partners and Downtown Development Authority item from committee, seconded by Farmer. The motion passed without dissent.</u>

<u>A motion was made by Mossotti to remove Review of PVA's analysis of Fayette County Tax Valuations item from committee, seconded by Farmer. The motion passed without dissent.</u>

<u>A motion was made by Bledsoe to adjourn, seconded by Mossotti. The motion passed without dissent.</u>

The meeting was adjourned at 2:41 p.m.

K.T. 3.6.17