



LEXINGTON-FAYETTE URBAN COUNTY COUNCIL

BUDGET COMMITTEE OF THE WHOLE (COW)

MAYOR'S PROPOSED BUDGET APPROACH AND  
STREET LIGHT PRESENTATION REVIEW

APRIL 30<sup>TH</sup>, 2013

**SUMMARY**

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Vice Mayor Linda Gorton called the meeting to order at 1:00pm. Council Members Steve Kay, Peggy Henson, Julian Beard, Shevawn Akers, Chuck Ellinger, George Myers, Bill Farmer, Harry Clarke, Kevin Stinnett, Chris Ford, and Jennifer Scutchfield were all present at the start of the meeting. Council Member Diane Lawless arrived late. Council Members Ed Lane and Jennifer Mossotti were absent.

**1. FY 2014 Mayor's Proposed Budget Approach**

Melissa Lueker, acting Budget Director, came to the podium to present an overview of the Mayor's Proposed Budget (MPB). She said their approach for the FY14 Budget was to review personnel, operating, new requests, and the budget summary.

Lueker said that the budget process started in January 2013. The divisions turned in their operating requests in February 2013. They held their budget hearing in March 2013. The Administration received \$309MM in total General Fund operation requests. That number included \$6.2MM of new requests. The original revenue estimate for General Fund revenues was \$290MM in February 2013. There was a \$19MM gap.

Lueker said that they followed specific guidelines when developing the MPB. They looked at government efficiencies, quality of life, quality of place, public safety, and leveraging of outside funding.

For the personnel budget, they used data from PeopleSoft as of March 1. The MPB includes a 2% raise for non-sworn employees, filled positions were budgeted at 98%, vacant positions were budgeted at 75%. Healthcare costs reflect the projected impact of the Patient Protection and Affordable Care Act (PPACA) and a continuation of the current benefit pool and supplement.

For the operating budget, the MPB continues to allocate insurance to the divisions. Utility costs are provided by General Services. Fleet Services provided vehicle fuel and maintenance. The MPB also gives the true cost of services; such as pool funding by individual pools, and tracking Police budgets by section.

Lueker said that new requests totaled \$6.2MM. 107 new positions were requested and 24 new positions were funded. Eight of the new positions were previously grant funded and they are now being funded by the LFUCG. Lueker said that they examined all requests for the value they added. They also considered new and expanded programs that are self supporting. An example is additional camps in Parks.

Gorton asked about the 2% pay increase for non-sworn employees. Lueker said it is for both civil service and at-will employees. Stinnett asked if the pay grades will be raised as well. Lueker said yes, it is a structural move.

Lueker said that licenses and permits make up 84.2% of General Fund revenue and personnel costs account for 64.4% of expenses. Public Safety accounts for 55.5% of General Fund Expense by Department.

Gorton asked Lueker if any of the eight previously funded grant positions were in the Division of Emergency Management. Lueker said no, there are seven in the Division of Police and one in the Division of Social Services.

## **2. Street light Presentation Review**

Commissioner William O'Mara came to the podium and began his presentation on street lights. O'Mara reminded the Council Members that the MPB is requesting a 1% increase in the franchise fees.

There are 30,925 street lights in Fayette County. Currently, the expenditures are greater than our revenues. On the expenditure side, the tariff expense is \$5.5MM, new light installation is \$300,000, the direct and indirect allocation is \$700,000; A total cost of \$6.5MM. The revenue received from property tax is \$4MM, with a net loss of \$2.5MM for the street light program.

O'Mara said the funding options are as follows:

- Increase the Urban Service Property Tax Rate (subject to recall)
- Create a Street Light Fee
- Use General Fund

The current street light tax is \$0.021 per \$100. The cost of service at the current service level would be \$0.034 per \$100. This would be a 62% increase; or approximately \$23 per year increase for a \$175,000 home.

O'Mara said property taxes in Kentucky are governed by HB44. The total revenue generated from a property tax cannot generate more than 4% additional revenue from comparable

property year over year. In times of inflation, you would have to roll the rate back. In times of stagnation, you would be able to increase that rate.

Voters have the option to sign a petition to put this to a vote. The vote would take place in the fall of 2013 and if the voter referendum was passed the following year, the tax could be assessed.

Future increases in the property tax rate would be necessary to keep pace with utility tariffs. At the 4% cap, it would take 13 years to reach 2013 cost level of \$0.034 per \$100.

Gorton asked O'Mara if this process would mean that they would go without the revenue for a year. David Barberie said that it is open to legal interpretation but the State would advise them to hold off on the entire charge that year.

Stinnett asked O'Mara how he got his revenue number. O'Mara said that this tax is only for the residents who have this service, so the pie is smaller. O'Mara said that it is based on \$19B in property values. O'Mara said that any not-for-profit organization or government is exempt; they are not assessed a property tax.

Stinnett noted that the potential increase would greatly impact commercial properties.

Gorton asked what the value is of the properties not paying property taxes. O'Mara said that he is unsure if the PVA has that number.

Scutchfield said that she wants to figure out how to get the service to those who have been paying for it. She said that she has concerns about increasing the fee when there are constituents that are paying for it that do not receive the service.

Kevin Wente said that they are still refunding for the street light fee. Wente said that they have concerns about where they will get the money from to send these refunds.

Stinnett said that he is very concerned that there will be refunds dispersed when the fund is bankrupt. Wente said that the same issue is happening with street sweeping. There are neighborhoods that are not getting the service even though they are paying for it.

Stinnett asked why they are refunding the fee. Wente said he is also concerned about dispersing the refunds. Stinnett said that this is a policy decision that must be addressed immediately.

Kay asked Wente about the magnitude of these refunds. Wente said that the total amount is \$25,000 to \$45,000. Wente said the average check issued is around \$9. Kay said that the constituents should get their money back.

Beard said that we cannot do business like this anymore.

Stinnett asked if this would be the appropriate time to see what outstanding installation costs the LFUCG has. Jim Woods said they have 450 street lights to install and it would cost roughly

\$360,000. Woods said that the tariff will equal \$14.30 per month per light on Kentucky Utilities bills.

Henson asked if they could wait to put new developments in that taxing district. Wente said that they will continue to issue refunds until the street lights are installed. Wente said that the timeframe between when they start paying the tax and when the lights are installed can be up to three years.

Scutchfield asked Wente if the LFUCG can ask the developer to install the street lights for the neighborhood. Wente said that it would be a policy decision. Wente said that he is not sure that the LFUCG can make that request to developers if we are not sure if we will have the money to repay them for those installations.

Gorton asked Wente if the Administration will be bringing a budget amendment to the Council to refund the fees. Wente said that the refund will be issued from the Urban Services Fund. He said that in the past they have not done a budget amendment to issue the refunds. O'Mara said that for FY13, the MPB had a subsidy to cover the cost for the street light program. The FY13 has complete funding for the street light program. The MPB for FY14 proposed the 1% increase.

O'Mara said that traditionally that a refund for a tax does not require a budget amendment.

Ford asked when they are going to install the 450 street lights that are scheduled to be installed. Woods said that they can install 100 per month during the installation season if KU is fully staffed and can do their part. Woods said that the installation will be prioritized based on how long they have waited and if the neighborhood is ready for the installation, those constituents will get priority for installation.

O'Mara said that in 1996 the street light assessment was \$0.0311 until 2003-2004 when the extension and soil and water tax were added. The tax rate decreased again in 2004-2005 when LexTran tax was added.

O'Mara said the first option that was vetted in 2010, 2011, and 2012 was replacing the tax with a street light fee. The collection rates would be substantially less. This fee was estimated at \$5.52 per year. There would be an additional cost of implementation and it would shift the burden from the commercial and industrial to residential.

O'Mara said that the second option was to supplement the street light tax with a fee (\$2MM). The collection rates would be substantially less. The fee was estimated at \$5.89 per year. There would be an additional cost of implementation and there would also be a gradual cost shift to residential from commercial and industrial.

O'Mara said that the third option would be to use the General Fund. This would involve an appropriation of existing funds. It would reduce other government functions. The Administration would like to increase the franchise fee and appropriate the funds for this purpose. The increase would be 1% in electric and gas which would generate \$4MM. This increase would total \$12-\$24 per household per year depending on the utility bill. O'Mara said that the General Fund subsidizes the Street light Program each year from common area street lights.

O'Mara said that by using the franchise fee, when the tariff goes up, the income the government receives will increase as well. All these estimates include \$300,000 in capital expansions each year. O'Mara told Council Members that he anticipates \$70,000-\$75,000 in increased utility bills as they expand the street light program.

David Barberie said that the first option presented would probably be illegal. He would not recommend trying to charge a flat fee across Fayette County.

Stinnett asked Barberie about doing away with the property tax for that type of district. Barberie said that would be a Council decision. Stinnett said they could make that decision when they are setting other tax rates in the fall.

Stinnett asked O'Mara if he calculated the lower collection rate when he calculated the estimated fee. O'Mara said that he is concerned that it would not be high enough. O'Mara said if they wanted to pass a zero rate, it would be effective the next January.

Stinnett voiced concern about allocated \$2.7MM to the economic contingency fund while raising taxes on our constituents to pay for the street lights.

Ford responded to Stinnett's comments by stating that there would still be an imbalance in future years within the street light fund. He said that since the fund balance is one time money. Ford asked what they will do in future years since the imbalance will remain. Barberie said that the increase in the franchise fee would be permanent. However, Barberie said they could roll it back at a future time if necessary. O'Mara said that the proposal is to have a permanent funding source going forward. O'Mara mentioned that the General Fund pays upwards of \$1MM each year for fire hydrants.

Ford asked O'Mara if the 1% increase would cover the increased tariffs costs. O'Mara said that neighborhood utility costs continue to grow. Adopting the fee increase is merely keeping up with increased tariff costs. O'Mara said that it would be good governance to do a hybrid, one for common areas and one for neighborhoods. O'Mara said with only the 4% increase in the street light property tax each year, they would struggle to keep up with the increased tariff costs. He said he is not sure that it is a long-term fix for the problem. The General Fund could assist with paying for the street lights in common areas throughout Fayette County.

Lawless mentioned that they would be transitioning to the use of LED lights.

Stinnett said that utility rates rise quicker than our property taxes. Stinnett said that they need to have a debate about raising the franchise fee because it is the most expensive for property owners. He said that some constituents are paying the franchise fee but do not have street lights. O'Mara said he likes the franchise option and said it is the best of the three options. O'Mara said that collections are always difficult. O'Mara said that street lights are a public good.

Kay said that when they say they are taking it out of the General Fund, there are other programs and services that will not be funded.

Gorton reminded the Council Members that the next Budget COW is May 21<sup>st</sup>. The agenda will include links report-outs. The first link to meet will be the first to report out. Gorton asked if Paul Schoninger and Stacey Maynard could provide an update on the list of meetings to Council Members via email.

Ford asked O'Mara if this service had been subsidized by other urban services revenue for years but is no longer able to be funded through the Urban Services Fund. O'Mara responded by saying that it is not just a matter of not being able to afford it, but that it is inappropriate to subsidize this service with other urban services revenue.

Ford said that by changing how street lights are funded, the pie will be increased. O'Mara said a subsidy from the General Fund has merit because the street lights are a public good.

O'Mara said that Lexington has been reluctant to raise property taxes. Ford said he is not advocating going beyond the 4%, but he thinks they need to consider at looking at both revenue sources.

Gorton said that the Board of Education routinely, for the last several years, takes the 4% increase and shows the public how they are responsibly using it by building new schools. She said that she is not aware of any criticism they have received through the media.

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

*Submitted by Jenifer Benningfield, Council Administrative Specialist*