

Lexington-Fayette Urban County Government Council Meeting

Lexington, Kentucky April 9, 2013

The Council of the Lexington-Fayette Urban County Government, Kentucky convened in regular session on April 9, 2013 at 3:00 P.M. Present were Mayor Jim Gray in the chair presiding, and the following members of the Council: Council Members Lawless, Mossotti, Myers, Scutchfield, Stinnett, Akers, Beard, Clarke, Ellinger, Farmer, Ford, Gorton, Henson, Kay, and Lane.

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The Mayor gave the FY 2013 Budget Address as follows:

Today, April 9, 2013, springtime finally! .And we are here to talk about our budget. In 2011, I called our city budget a Businessman's Budget. A business-like budget. Same for 2012. So let's just call this Business-like Budget, Release 3.0. The name fits because our budgets make sense to business, and to Lexington taxpayers. Spending under control, limited bonding - our goal is to get our debt service under 10 percent of revenue by 2016 - and addressing the toughest financial issues.

And generally, our budgets are based on common sense investments that support our efforts to create jobs. Let's first talk about where we were. When I was first elected, here's what we faced: Employee health insurance costs \$10 million over budget, and increasing exponentially; Collective bargaining contracts the city couldn't afford; and pension costs - millions beyond what we could afford - pushing us on a Titanic-like course to the brink.

Today those problems are in our past. So the budget headline today is simply this: Lexington is now on solid ground because of \$25 million in savings from the reforms we've made in the last 2 years.

Budget, 3.0, just like our first two budgets, is based on: 1) Our priorities; and 2) Strong financial management. What are those priorities? Our top 3 goals - part of every budget: Create Jobs - the environment for jobs; Run Government Efficiently; and Build a Great American City.

And what is the role of strong financial management in this, our third budget? It is the CORE value - accountability for every dollar spent and invested, and this year we expect to invest about \$297 million from the General Fund, a 2.7% increase over last year.

Bringing strong financial management to city hall has not been easy or casual. It has meant a lot of tough decisions for the Council. Like the decision to reform employee health insurance. We have now experienced a full year of employee health insurance reform, including 12 months of operating our employee-retiree clinic and pharmacy. We estimate annual savings at \$10 million, and growing. That \$10 million includes a savings of \$1 million at the health clinic and pharmacy.

Or the decision to search for savings in union contracts - an average annual savings of \$3 million. And, most recently - just last month - pension reform. Someone forgot to tell Lexington pension reform couldn't be done - we worked together, unions, retirees, city, state - we did it. We solved our biggest financial problem by cutting our long-range liability almost in half, from nearly \$300 million to \$161 million! And starting with this budget we are saving \$12 million a year from pension reform. That includes \$9 million in lower annual payments, and \$3 million in annual savings because we will not – now let me repeat that, will NOT -- take on more debt by issuing the \$34 million pension obligation bond and we now expect our savings will grow each year.

A conservative estimate of savings from all of these difficult, tough, challenging, but essential, decisions adds up to \$25 million this year alone. Let's ask ourselves this question: Without the savings in health insurance, pensions or union contracts, where would we be? Deeper in debt, or threatened with insolvency like Stockton, California or Harrisburg, Pennsylvania. Or making the massive public safety layoffs Cincinnati is considering - 149 police officers and 80 firefighters.

Now, in this new budget - please everybody! - don't expect \$25 million in savings to produce a ginormous windfall in available resources. Why not? Because we never really could afford to pay those bills anyway. Not without borrowing more, or cutting more programs, year after year. Now let me say that again, we couldn't afford to pay those bills anyway.

I've said several times Lexington's finances are back on track. But I've also said we're not out of the woods yet, and this new budget reflects that condition. Revenues are growing again, but modestly. We're estimating about 2.7% revenue growth in the General Fund this year. But costs are growing too, of course, and as we SLOWLY emerge from the recession, there are many pent up needs.

Our Finance Commissioner and former Revenue Director, Bill O'Mara, often refers to himself, with a smile of course, as "Dr. No" - that means appropriately conservative. In developing this budget, Bill's crystal ball was always operating like a blinking yellow light – caution - be careful - danger Will Robinson - danger, danger! Last Friday's monthly U.S. employment report confirmed Bill's caution - we're not out of the woods yet. And while I'm talking about Bill, I want to thank the team that put this budget together: Bill and three folks who are new to their positions, although you couldn't tell it by looking at this budget: Sally Hamilton, our Chief Administrative Officer, Melissa Lueker, our acting Budget Director, and Glenn Brown, our Deputy Chief Administrative Officer.

So, let's dive into Business-like Budget, 3.0. First, we made disciplined saving and spending a priority – as in our first two budgets. We examined all funding requests for needs and efficiency. There were \$309.7 million funding requests, we could not fund all of them. We made decisions only after listening to Councilmembers and discussing issues with division directors, union representatives, commissioners and others. And Glenn Brown said just yesterday, "Jim, be sure to say the directors and commissioners and others throughout government were great to work with."

As a result this budget includes: Limited bonding to invest in our infrastructure ... \$15.7 million and NO PENSION BOND. Continued full funding of the rainy day fund. A 2 percent salary increase for our civil service employees. Required staffing to improve efficiency and support results-driven, effective management. And, finally, this budget includes no broad-based tax increases.

We have included the same 1 percent addition to the franchise fee we proposed as part of last year's budget to allow us to continue to pay for streetlights in our neighborhoods and along major thoroughfares. The alternative is cutting streetlights and other services. Bill O'Mara and Susan Bush can offer more detail but I'll offer some brief context. It wasn't necessary to implement the fee last year. Why? Because we succeeded in covering our streetlight expenses with savings from FY12, but demands have increased and this revenue will be essential moving forward. But before we factored the increase into this budget, we worked to put the budget together without it - it didn't work. Without the additional revenue, the cuts across government were too

deep at a time when we must continue basic services as well as invest in our community, our neighborhoods and our people. We're now ready to move ahead, and we are asking Council to take a first step on today's work session docket so that the revenue is in place beginning July 1.

In talking about budgets, it was a vice president who once said, "Don't tell me what you value, show me your budget, and I'll tell you what you value." So I'm just going to confirm what many Councilmembers and I, as well, value by talking about budget proposals Council has made, including: Funding for 35 new firefighters, 28 funded initially through the Safer Grant, and the addition of another emergency medical ambulance; Funding for the Homelessness Office, a goal identified by the Mayor's Commission on Homelessness. We have all recognized the need for a new senior citizens center. This budget includes \$5 million to purchase land and design a new senior citizens center. Increased funding - a total of \$460,000 - for social service partner agencies, holding out a helping hand to citizens in danger of falling through the safety net..

Yes, this is a business-like budget with a dose of Warren Buffett in it, making good investments, and the Good Samaritan too, taking care of our neighbors. Treating others the way we'd like to be treated. State budget cuts and the federal sequester have resulted in significant cuts in local grants. Funding for GED training, child care assistance and assistance for teenage moms has dried up. Now you all know local government won't be able to fill this gap in the long-term. But we felt additional funding was appropriate in this crisis.

Councilmembers have also voiced their support of youth activities so we've included new support for the 'I Do' initiative. In the East End, increased funding for the Lyric. And I support Council's call for new multi-use fields to accommodate soccer, football, field hockey, lacrosse and more - \$150,000.

Like the investments in Council priorities, I propose focused initiatives designed to enhance quality of life and place, increase public safety, and improve operational efficiency. Under improvements in quality of life - let's expand camps for children with mental and physical disabilities. And support new summer and sports activities. In terms of quality of place - let's make maintenance a priority to ensure our city always looks its

best. Better maintain downtown, our front door. Our downtown belongs to everyone, and every neighborhood. It distinguishes us competitively. And we've included \$117,000 to improve maintenance of our greenways in neighborhoods. I have also included investing \$300,000 in the historic courthouse to make critical repairs while we plan for its future. And \$250,000 to match private fund-raising to update the Kentucky Theatre. I've invited Vice Mayor Isabel Yates here today to thank her and the Friends of the Kentucky Theatre for raising \$250,000-plus - and counting - for the Kentucky!

Investing in quality of place also means good planning. I'm proposing we fund two small area plans for neighborhoods through this budget. And - as announced last year - include \$1.25 million required local matching funds to leverage the state's contribution of \$2.5 million for the Rupp District. Currently we are putting together a financial plan for the District and we expect this will be complete this summer. Going forward, funds will be used to begin the design of both Rupp Arena and the convention center. And through this budget we will invest \$1 million in rural land preservation to protect and enhance our Bluegrass brand, agriculture and the horse industry, whose international capital we proudly claim.

And while I'm talking about our farmland, I want you to know we are raising private funds to implement the outstanding design for Town Branch Commons, the project that will connect our urban core to the rural landscape.

To improve public safety, we will, with your approval, increase strategic police overtime funds for neighborhoods, where even the threat of crime must be vigorously addressed. Upgrade emergency warning sirens. Continue to prepare a new, more affordable Emergency Operations Center. Improve public safety by improving their equipment – police cruisers, fire trucks, emergency medical ambulances, radios, clothing, cardiac monitors and more. And, fund the position of medical director to ensure best practices for our emergency medical technicians.

And through this budget we will improve government efficiency: Hire a select few corrections officers to expedite the intake process so officers can get back to their beats in our neighborhoods. Purchase equipment for building inspectors to enable them to work much more effectively from the field, where they are needed. We will improve efficiency by focusing on innovation through technology, engaging partners like the

Knight Foundation through the CitizenLex project, which looks to citizens for new solutions, and Code for America, which leverages the intellect of some of the country's best young technology programmers to use our open data initiative to amplify innovation in local government.

Improving efficiency, we will reorganize within the Department of Planning to streamline permitting in a one-stop shop, make enforcement divisions more efficient, implement downtown design guidelines, and introduce comprehensive focus on neighborhoods, from land use, to design to construction to maintenance to preservation. Also with an aim to improving efficiency, we will add a Chief Information Officer, a commissioner-level position, to lead our information technology initiatives, strategically and operationally, with a focus on transparency and innovation. Through technology, we will improve efficiency by making street closure information available to motorists as it develops, and better coordinate street work with utilities so pavement isn't torn up unnecessarily.

Looking all the way back to 2011, to our first, second and, now, our third budget, we are staying true to our goals. We have created jobs and encouraged the environment that attracts good jobs. But we know we can do better. We have run government efficiently. But we know we can do better. We have kept building and improving our Great American City. But we know we can do better. Yes - we can always do better - and with your guidance and direction, we will!

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The Council adjourned at 3:25 p.m.

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Clerk of the Urban County Council