



Budget, Finance & Economic Development Committee

December 3, 2019

Summary and Motions

Amanda Bledsoe, chair, called the meeting to order at 1:03 p.m. Committee members Steve Kay, Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Bill Farmer, Angela Evans, Fred Brown, and Jennifer Mossotti were in attendance. Councilmembers Josh McCurn and Jennifer Reynolds were in attendance.

I. Approval of October 29, 2019, Committee Summary

A motion was made by CM Ellinger to approve the October 29, 2019, Budget, Finance & Economic Development Committee summary; seconded by CM Farmer. The motion passed without dissent.

II. Financials Update – October 2019

Bill O'Mara, Commissioner of Finance, said we are seeing some of the lowest unemployment rates in history and reported the unemployment rates for the U.S. at 3.6 percent, KY at 4.3, Lexington MSA at 2.9, and Lexington at 2.8. He highlighted the economic indicators comparing current year to last year and pointed out how the fluctuation in these numbers month to month supports the shift to a quarterly financial update. Rusty Cook, Director of the Division of Revenue, said year to date the top four revenue categories are \$4.7 million over budget, which is primarily because of employee withholding. He explained their efforts to have the biggest payroll providers file electronically, which is a benefit for both LFUCG and the vendors. Under net profit, he said more refunds could come in after the first of the year and expects insurance to be closer to budget in the November data.

Melissa Lueker, Director of the Division of Budgeting, highlighted positive variances in the services and other income revenue categories and reported revenue at \$6.2 million ahead of budget through October. She reviewed expenses and said the positive variance of \$2.2 million in personnel is because of payouts but a large number of payouts are expected in January. She said they are working with the health insurance consultants to understand if the positive variance in insurance is a new trend or if it's because of timing. She pointed out operating has a smaller variance this year compared to a \$4.2 million variance last year, which was encumbered to help LFUCG remain whole in the last fiscal year. She said the overall change in fund balance is \$8.8 million and reported both revenue and expenses are up when comparing current year to prior year.

CM Moloney talked about his concerns for personnel and insurance. He said the surplus from last year came from operating, which wasn't really a surplus and asked about the expense variance being low. Lueker explained how divisions were asked to cut 15 percent from their budget in order to prepare for the current fiscal year budget, which was an estimated \$4 million reduction in operating that affected the base at the start of the year. Moloney is concerned about the timing of revenue and our expenses for the upcoming months. He asked about the revenue generated through the jail for holding state inmates and the recent efforts to hold less state inmates to help with overtime. He asked for an accounting of state inmates being held at the jail. Lueker said they can get those numbers and the increase in revenue is because they are holding more federal inmates, which pays a higher rate per day for holding an inmate. Moloney talked about the importance of safety and overtime. Hamilton said she will follow up with exact numbers.

CM F. Brown asked about debt service expenses and the timing of payments. O'Mara said the total for the debt service category, \$28 million, is a year-to-date figure, explaining how the city makes two

payments each year on every bond and they know what months those payments occur during the year; he concluded that they will follow the payment schedule.

No further comment or action was taken on this item.

October 2019 YTD Actual Compared to Adopted Budget:

<u>Revenue Category</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	64,095,362	58,937,249	5,158,113	8.8%
OLT - Net Profit	7,903,179	7,421,349	481,830	6.5%
Insurance	12,134,785	12,889,833	(755,048)	-5.9%
Franchise Fees	8,793,011	9,014,934	(221,923)	-2.5%
TOTALS	92,926,337	88,263,365	4,662,972	5.3%

October 2019 YTD/October2018 YDT Current Year to Prior Year:

<u>Revenue Category</u>	<u>Oct '19 YTD</u>	<u>Oct '18 YTD</u>	<u>Variance</u>	<u>%Var</u>
OLT- Employee Withholding	64,095,362	56,982,833	7,112,529	12.5%
OLT - Net Profit	7,903,179	7,832,948	70,232	0.9%
Insurance	12,134,785	11,133,354	1,001,431	9.0%
Franchise Fees	8,793,011	8,263,729	529,282	6.4%
TOTALS	92,926,337	84,212,863	8,713,474	10.3%

2020 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget):

<i>For the four months ended October 31, 2019</i>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
<u>Revenue</u>				
Payroll Withholding	64,095,362	58,937,249	5,158,113	8.8%
Net Profit	7,903,179	7,421,349	481,830	6.5%
Insurance	12,134,785	12,889,833	(755,048)	-5.9%
Franchise Fees	8,793,011	9,014,934	(221,923)	-2.5%
Other Licenses & Permits	1,144,425	1,059,122	85,303	8.1%
Property Tax Accounts	517,197	619,794	(102,597)	-16.6%
Services	9,071,767	8,111,697	960,071	11.8%
Fines and Forfeitures	69,970	86,733	(16,763)	-19.3%
Intergovernmental Revenue	54,259	84,307	(30,048)	-35.6%
Property Sales	43,614	50,000	(6,386)	-12.8%
Investment Income	479,547	288,107	191,440	66.4%
Other Income	1,397,337	916,088	481,249	52.5%
Total Revenues	\$105,704,453	\$99,479,213	\$6,225,240	6.3%

2020 Fiscal Year – Cash Flow Variance Expense (Actual to Budget):

<i>For the four months ended October 31, 2019</i>				
	Actuals	Budget	Variance	% Var
Expense				
Personnel	67,634,705	69,829,149	2,194,444	3.1%
Operating	15,511,081	17,095,361	1,584,280	9.3%
Insurance Expense	951,818	968,725	16,907	1.7%
Debt Service	28,011,042	28,011,042	0	-
Partner Agencies	8,062,089	7,961,068	(101,021)	-1.3%
Capital	191,750	172,500	(19,250)	-11.2%
Total Expenses	\$120,362,484	\$124,037,845	\$3,675,361	3.0%
Transfers	1,692,902	553,503	(1,139,399)	102.3%
Change in Fund Balance	(\$16,350,933)	(\$25,112,135)	\$8,761,202	

Comparison of Economic Indicators 2017/2018/2019:

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	2017	4.0%	3.9%	3.9%	3.6%	3.6%	4.4%	4.5%	3.9%	3.2%	3.2%	3.1%	2.8%
Unemployment Rate	2018	3.0%	3.6%	3.4%	3.0%	3.2%	4.0%	3.8%	3.2%	3.2%	3.3%	2.7%	2.8%
	2019	3.3%	3.3%	3.5%	3.0%	3.2%	3.9%	4.0%	3.4%	2.8%	N/A		
Quarterly Fayette County	2017	-	-	192,217	-	-	194,097	-	-	196,127	-	-	199,897
Employment	2018	-	-	191,558	-	-	193,808	-	-	194,533	-	-	194,634
	2019	-	-	191,500	-	-	N/A	-	-	N/A	-	-	N/A
Fayette County Permits Issued	2017	876	739	924	899	1,357	995	1,207	1,283	1,054	1,053	994	965
	2018	914	927	979	993	1,547	1,432	1,260	1,187	999	1,243	952	760
	2019	1,017	846	986	1,316	1,528	1,350	1,379	1,231	1,018	1,163		
Fayette County New Business	2017	201	253	418	468	621	328	206	281	205	247	213	140
Business Licenses	2018	219	250	379	751	535	286	166	264	209	279	174	149
	2019	216	259	446	736	557	297	267	264	244	277		
Home Sales (MSA)	2017	776	794	1,060	1,067	1,411	1,428	1,353	1,311	1,084	1,115	951	1,000
	2018	728	700	1,042	1,085	1,281	1,380	1,294	1,339	1,010	1,086	953	887
	2019	619	805	1,088	1,180	1,412	1,322	1,405	1,389	1,180	N/A		
Fayette County	2017	27	17	16	19	16	17	20	22	19	16	26	16
Foreclosures	2018	21	0	22	21	21	22	16	25	28	14	0	15
	2019	11	16	14	18	13	18	11	12	10	16		

N/A indicates information not available.

BLS Release Dates for Fayette Co. Quarterly Employment - 6 months after quarter end

FY20 Code Enforcement Nuisance Abatement/Lien Collections:

Month	Administrative Collection		Miscellaneous		Penalty & Interest		Total Collections	
	Fees							
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
July	450	675	5,057	1,430	89,851	15,407	95,358	17,512
August	450	75	4,058	2,068	77,099	61,651	81,607	63,794
September	450	225	8,930	4,083	72,184	31,372	81,564	35,680
October	450	150	5,457	2,431	68,296	88,286	74,203	90,867
Totals	1,800	1,125	23,503	10,012	307,429	196,716	332,732	207,853

III. Potential Budget Review Process Changes

Bledsoe explained this is in follow up to the discussion in the Committee of the Whole meeting on October 24, 2019, which included some recommendations from the mayor's Budget Blueprint Workgroup.

a. Council Budget Calendar

Bledsoe said the proposed council calendar amends the budget meetings based on the discussion in the October COW. She said the mayor's budget address is moved to April 28. To test out the new timeline she proposed a one-year suspension of the ordinance that requires the address to take place on the second Tuesday in April. She mentioned the initial concerns about shortening the link review window and said the link and council recommendations due date is moved back, as well as the following budget COW. She reviewed adjustments to the meetings in June in order to approve the budget by June 15, per the Charter, and pointed out the FY2021 budget would be the only item on the June 9 council meeting docket.

CM Lamb mentioned the second reading of the budget was originally scheduled for June 18. She and Bledsoe discussed how the proposed ordinance affects the timeline for the budget address and that the suspension of the ordinance allows the council to see how it works this year. Lamb asked about the length of time for link review, which Bledsoe said there are 15 calendar days.

A motion was made by F. Brown to accept the amendments to the 2020 council calendar on page 21-23 of the December 3 BFED Committee packet, which includes moving the Mayor's budget address to April 28 and final approval of the budget taking place by June 15; seconded by Farmer. The motion passed without dissent.

A motion was made by Farmer to approve the ordinance that suspends ordinance no. 292-2005 for the submission of the Mayor's proposed annual operating and capital improvements budgets for FY2021 and directing that these budgets be submitted to the Urban County Council by no later than April 28, 2020; seconded by Ellinger. The motion passed without dissent.

b. Links Questions and Descriptions

Bledsoe explained the intent to distribute the council budget link questions earlier, combining with the administration's process so divisions only do one link/budget review. She pointed to the sample of link questions in the packet and said councilmembers are still able to ask any additional questions throughout the process. She said the goal is to align with the administration's process this year.

CM Evans confirmed these questions were made in conjunction with the administration. Bledsoe explained the effort to avoid duplication and the separation of the questions that will be covered by the administration.

Lamb talked about the opportunity to identify the difference between what the divisions request and the proposed budget, particularly with limited time between the proposed budget and the link process. Bledsoe said the proposed calendar outlines the mayor proposing the budget in the morning and a budget COW later that day would review the budget in detail. Lamb said she wants there to be enough time to get any necessary updated information to the council.

CM Farmer asked about the assignments of the division to each link, which has been modified since last year. Bledsoe explained the changes take into consideration the latest re-organization and the length of time each link may need to conduct the review. Bledsoe said this is open to discussion.

CM J. Brown asked about the line item detail of the budget no longer included in the budget book. Lueker explained that the Budget Blueprint Workgroup recommended the printed budget book to have more summary information, pointing out the council adopts the budget at the control level (personnel, operating, capital, and transfers). She said the printed document will be prettier and user-friendly and the line by line detail will still be available online in an excel spreadsheet that would allow people to search. J. Brown confirmed the line item detail would be available at the time of the budget presentation. He asked about the handheld summary budget book, which he found very helpful; Lueker said they are working on reviving that. J. Brown talked about getting a version of it at the beginning of the process and a revised version at the end.

VM Kay pointed out the Office of the Affordable Housing was not included in the assignments of divisions to links. Bledsoe mentioned the intention to bring the remaining information from the Budget Blueprint Workgroup to the January BFED meeting, including a preliminary look at the budget book.

A motion was made by Ellinger to approve agenda item 3 (b) to support the proposed outline of link questions and the assignment of divisions to each link; seconded by Kay. The motion passed without dissent.

c. Quarterly Financial Reports

Bledsoe recalled the challenge for the Commissioner of Finance and staff to make these reports timely, helpful, and useful for the council to make policy decisions and proposed the report and analysis to take place quarterly while continuing to receive the financial update monthly, via email. Farmer aligned the proposal with the idea that less is more. Bledsoe talked about the common issue of timing with monthly reporting; how it is hard to see trends, analyze, and make sense of the data; the shift to quarterly is to make this a more useful tool.

A motion was made by Farmer to move forward with the BFED committee's financial report presentations occurring quarterly as outlined in the calendar on page 29 of the December 3 BFED Committee packet; seconded by Mossotti. The motion passed without dissent.

d. Subcommittee: In-Depth Divisional Review Process

Bledsoe said she would like to have a subcommittee investigate an in-depth review process and identify a sample to try. CM Farmer asked how long this subcommittee would meet. Bledsoe expected not long and said the intent is to mindfully process how we do a divisional analysis from a budget perspective in a committee, to explore and carefully define what that looks like and what would be asked of divisions. It was confirmed the group would start in January. Farmer and J. Brown said they would serve on the subcommittee.

Lamb asked what division this review process will start with. Bledsoe said she wants the subcommittee to help make sure a good sample is chosen. Lamb talked about the ideas coming through RethinkLex that are changing divisions or departments and mentioned waiting until those changes have been implemented to have a real conversation about what is current. Lamb said she would serve on the subcommittee.

Evans asked about the rotation of the reviews being dependent upon the division or department. Bledsoe said possibly but the first step is to narrow down what we are looking for and how it will look in committee. Evans said she would serve on the subcommittee.

Kay talked about how the links process is supposed to focus on the budget but questions about function also get raised, which become ad hoc committee referrals, with a lack of ownership, based on one question. He said the idea is to regularize that process and help inform the council. He said he would serve on the subcommittee.

A motion was made by Lamb to report the action taken on agenda item III at Work Session this afternoon, December 3rd; seconded by Mossotti. The motion passed without dissent.

(This agenda item was reported to the Council at Work Session on December 3, 2019 through a partial summary of this meeting.)

IV. Economic Development Partner Funding Proposal

Kevin Atkins, Chief Development Officer, presented a new process to allocate economic development funding that engages both the mayor and council based on goals and priorities. He reviewed six economic development partners funded in the FY2020 budget, a total of about \$1.2 million. He explained how LexArts and the Lyric would be excluded from the proposed process and they would be considered under arts and cultural affairs. With \$800,000 in the jobs fund and \$200,000 for the workforce development fund, Atkins said the total funds for economic development is \$1.6 million (\$2.2 million if you include LexArts and the Lyric). He said the new RFP process would operate on a two-year cycle and engage the Economic Development Investment Board to meet targeted goals set forth by LFUCG, allowing the city to be more intentional about reviewing its priorities every two years. He provided a list of potential focus areas for the economic development funds, mentioning the Mayor's priority for high-tech agriculture as an example and said the proposal creates a dialogue between the council and administration about priorities. He explained the processes to set the priorities and for the RFP, both of which engage the Economic Development Investment Board.

F. Brown asked if this circumvents the allocation in the mayor's budget. Atkins said no, explaining the money would be assigned to economic development in the budget and then the process would respond to the amount that was allocated. He said, traditionally, the economic development agencies submit a request to the city that goes through the budget review process and pointed out the benefit for agencies to work on a two-year commitment. F. Brown talked about communication with the agencies. Atkins said in the past the agencies were setting the priorities based on their budget requests but this new process allows LFUCG to set the targets.

Evans asked if they have talked with the commissioner of social services about this model, recalling issues with setting priorities for ESR in the past. Atkins stated that Commissioner Chris Ford will be an integral part going forward to avoid some of the same pitfalls. Evans pointed out that there was no mention of minority recruitment in the areas of focus. She said we need a population of minority professionals and we need to grow it; she encouraged this to be a factor in how the funds are awarded. Atkins commented on the work Tyrone Tyra (Senior Vice President, Community and Minority Business Development) does for Commerce Lexington.

CM Reynolds asked about the thought behind excluding LexArts and the Lyric from the economic development proposal because the arts contribute jobs and economic stimulus. Atkins said no one would disagree with LexArt's and the Lyric's contributions but that they are looking at economic

development using a stricter definition for this process; he talked about the arts and culture agencies as their own cohesive group.

J. Brown appreciates the separation of LexArts and the Lyric and he would not like them competing with other economic development agencies for funds because of the differences between creating jobs and quality of life. He is concerned about committing funds for a two-year cycle and said he would like the flexibility to make changes as the needs arise. J. Brown asked who is on the Economic Development Investment Board, which is separate from the Industrial Authority. Atkins listed the board members. J. Brown said minority recruitment needs to be considered when talking about economic development but he likes how the funding will be awarded based on the city's needs. He referenced a presentation by Jamie Rogers a few years ago that talked about an economic development plan for the city to set priorities and strategies. Atkins referenced Commerce Lexington's strategic plan and pointed out the intent for collaboration with the council and the Economic Development Investment Board to develop strategies.

Kay commented on the ESR structure and the number of changes to its process to get to this point. He would expect this process to go through some of the same things. He likes the structure and feels that it moves us toward an economic development plan. Regarding the arts, he feels separating them out is a good idea and that they contribute more to quality of life.

CM Ellinger asked if we could bind future councils with the two-year cycle. Atkins talked about the commitment through a PSA, similar to the workforce development grants. Ellinger confirmed this would take effect in FY2021. Atkins pointed out the Law Department includes language in the PSA that covers how the funds are dependent upon funds budgeted. Ellinger likes the two-year cycle but feels the agencies need to know it is not a guarantee.

Mossotti mentioned comments she is receiving from the commercial sector about the lack of *light industrial* (I-1) and *heavy industrial* (I-2) zoned property, which is a need for economic development. Moloney commented on bonding to maintain economic development funding if it's needed. He talked about creating jobs, which would pay the bonds off. He pointed out that if we can bond money for PDR, we should be able to bond for this, and stressed the importance of economic development and the priority to fund jobs. Atkins said the city's funds are leveraged through partner agencies in workforce and outside investment. Bledsoe suggested moving forward and coming back with an update in the spring.

No further comment or action was taken on this item.

V. Economic Development Partner: Commerce Lexington

Bob Quick, President and CEO of Commerce Lexington, reviewed recent staff changes within the organization. He reported significant success over the last couple of fiscal years, including 2,648 new direct jobs created from their clients, and reviewed wages, capital investment, and a return on investment for LFUCG of \$5.69 per dollar in revenue. He highlighted their client companies, specifically the third expansion of Clark, as well as investment and job creation for Anixter, ZeliOS, and Faneuil. Quick talked about four technology Spark events on entrepreneurship. He talked about the annual celebration of entrepreneurs, done in partnership with the University of Kentucky and reported their entrepreneurs creating 260 new jobs (average wage of \$71,700). He pointed out their work with the closure of Trane, with the final layoff scheduled for August 2020. He said 204 clients were served through their minority business development, noting the \$681,000 to support the Accelerator program

to help companies build their business. He highlighted the Access Loan program that is available to women and minority-owned companies.

Betsy Dexter, Executive Director, Business & Education Network, talked about the talent pipeline management initiative with the Kentucky Chamber Workforce Center, which is currently focusing on the construction and trade industry such as commercial electricians. She pointed out they are targeting their development efforts based on understanding where candidates were coming from. She mentioned her involvement with Academies of Lexington in the Fayette County Public Schools system and the Summer Youth Job Training Program workgroup to better align businesses with the needs of youth and the program. They concluded their presentation with their community video that is used for retention, recruitment, expansion, and economic development.

Moloney talked about the need for more jobs to improve the budget and asked about the talent pipeline management program. Specifically, he talked about working with kids earlier. Dexter said the industry collaborative is having round-table discussions and beginning to work with middle schools. Quick commented on the importance of the relationship between the private and public sectors in Lexington, which is a necessity for the community's success, particularly when a company visits or is considering a visit.

J. Brown commented on partnering with schools and that childcare and early education such as preschool is part of the workforce development engine. He said if parents feel comfortable with their child's care, they are more likely to get back into the workforce or further their own education. He and Quick discussed the Task Force on Neighborhoods in Transition and the fact that Commerce Lexington understands what the task force is talking about and how it impacts Lexington as a whole. J. Brown asked about the expectations of the private sector business partners in the academies, which Dexter explained focuses on the kids getting hands-on experience and does not require any financial commitment from them.

J. Brown asked for Quick's opinion on the economic development funding proposal. Quick stated they learned a lot in the presentation today and they are willing to work with the council to make the process better. He added that they are willing to spend time with councilmembers to get a better look at what they do on a daily basis.

Evans asked for an update on the gentleman who spoke at the 2019 Chamber trip, Ted Abernathy, because of how he summed up what we need to be looking at, as a whole, including the impact of housing or business decisions. She feels this could be the guide for our economic development plan and this funding proposal. Quick stated that they are working on regional policy, taking into consideration potential candidates but that they are still working on the format so stay tuned. He said we lose if this is only about Fayette County; if it's about a region working together, we win. Evans talked about a different mindset for economic development, regionally. She spoke about how the counties in the Bluegrass area impact each other and setting policies. Lamb talked about getting positive feedback in the community and feels like the work being done is effective.

No further comment or action was taken on this item.

VI. Economic Development Partner: Urban League

P.G. Peeples, President and CEO of the Urban League, first talked about LFUCG's investment of \$76,500 in their organization. He spoke about being a part of the Urban League network (90 offices) throughout the country, which focuses on education, housing, jobs, health, and justice. Annissa Franklin, Chief

Administrative Officer, talked about their mission and their cornerstone work in affordable housing where they are creating about four units per year for low-income families. She said they focus on marginalized students for college and career readiness classes and showed the increases in the number of youth served over the last few years, with over 200 participants in June 2019. The program, *MADE or Motivated All Day Every day*, engages FCPS family resource coordinators and counselors and emphasizes the participant's plans after high school. She talked about the students making honor roll, a trip to Washington, D.C., completing a triathlon, and engaging in the horse industry.

Franklin reviewed the LIFT conference that helps first-generation college students navigate that process; LIFT also provides financial resources to the students. The conference is offered to pre-school through high school youth and involves the parents. LIFT participants also participated in On The Table last year. She showed a video of one high student's application to receive a scholarship. She reported LFUCG's funds help with 20 of the 443 scholarships they award through their organization. She talked about the need for their record expungement program that served 33 individuals the first year and its growth, with 91 inquiries and 15 actual expungements this last fiscal year. She reviewed the barriers that both the organization and the clients face in this work. Lastly, she reviewed the types of violations that have been expunged.

Lamb asked about the schools involved with MADE. Franklin listed the high schools: Bryan Station, Douglas, MLK Jr. Academy, Tates Creek, Dunbar, and Lafayette; middle schools: Bryan Station, Winburn, LTMS, Leestown, Crawford, and Jesse Clark. Lamb encouraged coordination with Southern Middle School.

J. Brown talked about how the Urban League fills a void in our community through affordable housing and workforce development. He talked about the Urban League speaking out about neighborhoods in transition and gentrification; he said their work is a valuable component to how we help people. Peoples referenced the Chamber trip to Boulder, where people could not afford to live where they work; he said it's worth looking at how many people work in Lexington and have to live someplace else because they can't afford to live here, as well as the price of housing that is forcing people to move.

Evans agreed affordable housing is a big piece of economic development and how we can do better. She talked about child care. She referenced the recent affordable housing study, specifically about the people in homes they cannot afford; she said the answer is not just about expanding the urban services boundary. She said we need to be talking about keeping the people here that already live here and referenced the other half of the city that don't live in the "Lexington" that was shown in the video in the previous presentation. She talked about the importance of an integrated system, particularly for economic development and the investment board.

No further comment or action was taken on this item.

VII. Items Referred to Committee

No action was taken on this item.

A motion was made by Farmer to adjourn at 3 p.m.; seconded by Evans. The motion passed without dissent.