



Budget, Finance & Economic Development Committee

October 26, 2021

Summary and Motions

Committee chair, Council Member Amanda Bledsoe, called the meeting to order at 1:02 p.m. Committee members Vice Mayor Steve Kay and Council Members Richard Moloney, Chuck Ellinger, James Brown, Josh McCurn, Susan Lamb, Preston Worley, Fred Brown, and Kathy Plomin were present. Council Members Whitney Baxter and Jennifer Reynolds attended as non-voting members.

Note: a partial report out of this meeting was made on October 26, 2021 at Work Session to report action taken under agenda item III. FY2021 Fund Balance.

I. Approval of September 28, 2021 Committee Summary

Motion by Plomin to approve the September 28, 2021, Budget, Finance, and Economic Development Committee summary; seconded by Kay. The motion passed without dissent.

II. Quarterly Financial Update – September 2021

Erin Hensley, Commissioner of Finance, provided an overview of the first three months of FY2022. They are tracking actual revenue and expenses because of a variety of factors such as grant funding related to the pandemic that has changed expenditures. There is a significant expenditure variance in personnel largely because of vacancies, particularly in public safety. Some of that variance is offset with payouts for departures and increased overtime; vehicle-related costs correlate with personnel and are also down. She said they will likely bring an updated revenue estimate to the council in the second quarter.

Wes Holbrook, Director of Revenue, reviewed revenue trends. Employee withholding has shown good growth above what was budgeted, a trend that started the third quarter of FY21. There has been a change in the top 10 employers in Lexington, largely attributed to telework. He is seeing a higher number of estimated payments for net profits but they aren't sure if that is indicative of higher anticipated net profit in the spring or if it would offset gains. The insurance variance is largely attributed to marine insurance. Holbrook said overall the trend to budget is going well. Comparing year over year, recovery to the pandemic can be seen in employee withholding but net profit looks off because of the pushed July 15, 2020 filing deadline.

Moloney spoke about people not traveling during the pandemic and fixing up their houses and asked if they can track that to see if it has had an impact on revenue. Holbrook explained that type of work doesn't make up the bulk of revenue based on the city's top 10 employers, even the top 20, so we might not see the needle move enough. They discussed tracking revenue from Home Depot and related industries.

Melissa Lueker, Director of Budgeting, reviewed the other revenue categories. Due to EMS revenue with changes in state law, *services* had a positive variance. Some *services* with lower revenue are offset by lower expenditures. Golf course fees and other parks programs are up. Lueker said total revenue is \$6.2M above budget, primarily due to payroll withholding. They are working with divisions to manage vacancies and overtime. There are savings in *operating*, which is impacted by vacancies; at the detention center, a lower number of inmates is resulting in less professional services costs. The *partner agencies'*

variance is overstated due to the timing of the payment to the library. The *capital* variance is mainly because of items that were pre-funded in the budget and will go down throughout the year. Lueker said the city budgeted to spend more than we brought in in the first quarter, which is reflected in the comparison of actual to budget. When comparing year over year, Lueker pointed out how FY21 will be a weird year to compare to because of the pandemic and the CARES Act. Hensley pointed out the slides that report the ARPA allocations to date, which total \$23M.

Moloney asked if there is enough money from vacancies to cover the extra overtime that is needed. Hensley said LFUCG budgets for overtime but the vacancy savings is being offset but overtime and payouts. Lamb confirmed that the reporting deadline for ARPA was extended from October to January 31st, as well as that the payouts for retiring collective bargaining units come from the General Fund. They discussed attrition, which the administration monitors closely. Hensley mentioned how some have called the current environment the “great resignation”, which is different from typical attrition projections. LFUCG depends on historical departures to inform decisions in the budget. No action was taken on this item.

September 2021 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	55,425,155	50,740,000	4,685,155	9.2%
OLT - Net Profit	7,828,148	7,400,000	428,148	5.8%
Insurance	9,090,146	8,690,000	400,146	4.6%
Franchise Fees	6,183,566	6,200,000	(16,434)	-0.3%
TOTALS	78,527,015	73,030,000	5,497,015	7.5%

September 2021 YTD/September 2020 YTD Current Year Compared to Prior Year:

<u>Revenue Category</u>	<u>Sep-21</u>	<u>Sep-20</u>	<u>Variance</u>	<u>% Var</u>
OLT- Employee Withholding	55,425,155	49,096,237	6,328,918	12.9%
OLT - Net Profit	7,828,148	15,779,784	-7,951,636	-50.4%
Insurance	9,090,146	8,437,561	652,585	7.7%
Franchise Fees	6,183,566	6,135,550	48,016	0.8%
TOTALS	78,527,015	79,449,132	-922,117	-1.2%

FY2022 – Cash Flow Variance Revenue (Actual to Budget):

<i>For the three months ended September 30, 2021</i>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
<u>Revenue</u>	-	-	-	-
Payroll Withholding	55,425,155	50,740,000	4,685,155	9.2%
Net Profit	7,828,148	7,400,000	428,148	5.8%
Insurance	9,090,146	8,690,000	400,146	4.6%
Franchise Fees	6,183,566	6,200,000	(16,434)	-0.3%
Other Licenses & Permits	983,504	815,386	168,118	20.6%
Property Tax Accounts	479,106	653,447	(174,341)	-26.7%
Services	6,544,131	6,091,017	453,114	7.4%
Fines and Forfeitures	52,085	63,500	(11,415)	-18.0%
Intergovernmental Revenue	102,603	72,983	29,620	40.6%
Property Sales	67,013	25,000	42,013	168.1%
Investment Income	42,563	48,216	(5,653)	-11.7%
Other Financing Sources	40,000	40,000	0	-
Other Income	649,887	383,642	266,245	69.4%
Total Revenues	\$87,487,907	\$81,223,191	\$6,264,716	7.7%

FY2022 – Cash Flow Variance Expense (Actual to Budget):

<i>For the three months ended September 30, 2021</i>				
	<u>Actuals</u>	<u>Budget</u>	<u>Variance</u>	<u>% Var</u>
<u>Expense</u>				
Personnel	46,732,595	49,203,918	2,471,323	5.0%
Operating	11,292,065	17,052,598	5,760,533	33.8%
Insurance Expense	1,264,962	1,236,848	(28,114)	-2.3%
Debt Service	17,771,572	17,771,572	0	-
Partner Agencies	4,302,844	5,678,295	1,375,451	24.2%
Capital	58,014	702,453	644,439	91.7%
Total Expenses	\$81,422,052	\$91,645,684	\$10,223,632	11.2%
Transfers	6,425,724	6,302,726	(122,998)	-1.7%
Change in Fund Balance	(\$359,869)	(\$16,725,219)	\$16,365,350	

III. FY2021 Fund Balance

Hensley said LFUCG is fortunate to experience some accelerated recovery in revenue collection, plus the federal assistance and that the goal, today, is to assign a purpose for unassigned funds. Hensley

provided some background on fund balance, which is the difference between assets and liabilities in a government fund. The total FY21 fund balance, about \$105.5M, is made up of the FY20 fund balance restated, plus the FY21 net change. There are several uses of fund balance, starting with non-spendable prepaids and inventory, the energy improvement fund, and the qualified energy bond reserve. Other fund balance commitments include Economic Contingency, the city's largest fund balance commitment (about \$37.9M as of 6/30/21), and funds that the annual financial report lists the "general fund family of funds", which are not 1101 funds. LFUCG's goal for Economic Contingency is to have 10 percent of revenues reserved; the balance is just below 10 percent. Historical assignments include health insurance reserve, which they try to maintain a healthy balance because LFUCG is self-insured. Based on conversations with health insurance providers, there are a lot of people with deferred medical activity. Fund balance for capital projects is another historical assignment where funds for capital projects that aren't bonded exist.

Obligated fund balance uses include the PO roll, which is unusually high this year because of several items that were pre-funded in FY21, such as the ESR Program. Pre-commitments and assignments include budget stabilization funds committed at year-end or after June 30th for items, such as funds used to balance the FY22 budget and the small business loans. Hensley talked about maintaining a balance in budget stabilization and the original intent for these funds to cover pension increases; an assumption was made to reserve about \$15.5M for the presentation, which is what was reserved in FY21, carried forward. She outlined the mayor's three proposals for funding that are urgent or of a health and safety nature (parking repairs, a compensation consultant, and IT infrastructure at Corrections). Taking into an account reserved budget stabilization and the mayor's proposals, the total remaining unassigned fund balance is \$11.8M. Bledsoe said the council has traditionally allocated the remaining fund balance to budget stabilization to come back to later.

F. Brown and Hensley discussed restricted and unrestricted funds outlined in the annual financial report; economic contingency is the restricted fund, everything else is an "assignment". F. Brown mentioned having the jurisdiction to change the assignments; funding in non-1101 line items cannot be changed. In regards to budget stabilization, F. Brown asked about the funds necessary to afford increasing pension costs, which is about \$3.9M annually; he talked about affording the increases out of General Fund, not budget stabilization. In reference to reserving \$15M in budget stabilization, he questioned "when is enough, enough". The capital projects fund balance is for various projects, including \$332,000 for the Versailles Road project.

Moloney recalled the stair-stepping increases for pension costs to get to \$12M while Hensley agreed the original intent of budget stabilization was to cover those costs. Bledsoe said it was designed to cover the delta between what we have and what is needed. Moloney shifted the discussion to maintaining 15 percent of revenues in Economic Contingency, which factors into a government's bond rating. Hensley confirmed the GFOA is now looking at 15 percent but she hasn't been notified how they will evaluate that yet.

Kay believes that even if the guidance changes, it doesn't mean that the city's bond rating would change. Bond-rating agencies review a variety of things including reserves, evaluating the government as a whole. They discussed that the bond rating would only take into account the General Fund, not the other funds. If budget stabilization and Economic Contingency were considered together that would put LFUCG above the 10% goal. Lamb encouraged reserving enough funds in budget stabilization for when the pension increases come because they are coming.

F. Brown established that the pre-commitment of \$8.1M was used to balance the FY22 budget; costs included allocations such as about \$4M for pension and affordable housing. Hensley clarified budget stabilization is a categorization of fund balance. They discussed the pre-committed allocation of \$1.4M for the COVID winter warming temporary shelter and switching its funding source to ARPA because it is an ARPA eligible expense. F. Brown mentioned the carryforward fund balance is the lowest he has seen and he would like to consider adjusting that number from the unassigned fund balance.

The discussion continued about the beginning fund balance and increasing it to \$1M, including a motion made by Moloney that was withdrawn. It was established that the FY22 beginning fund balance cannot be changed but this could be done in next year's budget. Lamb and Moloney agreed they would like to see the historical funding levels of this line item; Moloney suggested in committee in the future. Hensley explained the primary goal of a beginning fund balance is for emergencies/unanticipated items when the books have closed but alluded to how the advent of budget stabilization has changed the landscape. Kay recalled this number being much higher at times but talked about budget stabilization, which has allowed the administration and council a lot of flexibility in thinking about how we spend funds.

Motion by Kay to approve the allocation of \$403,500 from fund balance for parking repairs in the Government Center; seconded by F. Brown. The motion passed without dissent.

Motion by J. Brown to approve the allocation of \$125,000 from fund balance for a compensation consultant in the Government Center; seconded by Ellinger. The motion passed without dissent.

Motion by Plomin to approve the allocation of \$150,000 from fund balance for IT infrastructure at Community Corrections in the Government Center; seconded by Lamb. The motion passed without dissent.

Motion by Kay to assign the remaining fund balance of \$26,709,827 to budget stabilization; seconded by J. Brown. The motion passed without dissent.

Motion by F. Brown to fund \$1.4M for the COVID Winter Warming Temporary Shelter allocation with ARPA funds rather than with fund balance; seconded by McCurn. The motion passed without dissent.

V. Economic Development Workforce Grant Update

(This item was heard before item V.) Elodie Dickinson, Director of Workforce and Business Engagement, first provided updates about the economic development grant. The grant budget was \$200,000 for FY20, FY21, and again in FY22. In 2020 they had three partners under the job placement tract, who collectively made 300 job placements with an average wage of \$11.54 per hour. There were two partners under the certification/licensure track in 2020, which resulted in 13 certifications/licenses. The FY21 grant cycle outcomes will be reported after June 30, 2022. Dickinson reviewed the timeline for the FY22 grant cycle; the deadline for applications is in December and final approval of those awards will take place by June. She shifted the presentation to the *WORK-Lexington* program, a pilot project that coordinates workforce programming at the Charles Young Center with nine workforce providers. United Way of the Bluegrass is providing a full-time person to offer social service assistance, as well. She highlighted the program's contact information (www.lexingtonky.gov/lexwork). The next steps include virtual appointments, a possible job fair, and an evaluation of the program. Workforce engagement is an issue right now but she has done a variety of outreach methods to get the word out, including a new video that she showed the committee.

Plomin and Dickinson discussed outreach to workforce agencies to submit applications for the grants. There has been a reduction of applicants over time, about 30 in FY17 and about 15 in FY21, which might be because the program measures outcomes and has payback clauses in the PSAs. The scoring committee has some members that are consistent and some that change out. J. Brown confirmed the six-month pilot program of WORK-Lexington will end in December and they will evaluate what to do next in January. They have spent a quarter of what they anticipated on the program, mainly for IT costs. Dickinson said outreach and marketing come with a cost and they will work with the Economic Development Investment Board about how to move forward. No action was taken on this item.

IV. Bluegrass Farm To Table Update

Ashton Potter Wright, Director of Local Food & Agricultural Development, presented an update on the Bluegrass Farm to Table program. First, she covered the necessity to develop and nurture strategic partnerships because she is the only staff person. The advisory committee established in 2014 transitioned last year to a *local food systems stakeholder group*, which better reflects the current nature of the group. The group presents opportunities for collaboration and prevents duplication. In 2019, she co-hosted the KY Local Food Systems Summit, which is a day-long event. The 2022 summit is planned to take place in March. A large portion of Wright's time is spent facilitating value chains for local farmers and food producers; she works with distributors and buyers, which includes helping small-scale farmers move beyond direct marketing (i.e. farmers markets). In seven years of work, she's connected with 90 plus buyers; a conservative estimate shows the economic impact of more than \$9M in sales for Kentucky farmers.

Wright coordinates several programs and initiatives out of her office including the Kentucky Double Dollars program, which started in 2015 through a grant and has since grown statewide. A chart in the presentation outlining the incentives redeemed and the participants reached shows how the program continues to grow. She manages the LFUCG CSA farm share program that was based on research from the University of Kentucky Agriculture and Economic Department about CSA participation having an impact on health outcomes. LFUCG's program started in 2017 serving about 100 employees, through 2021 the program allowed 150 employees to participate, and up to 300 employees will be able to participate in 2022 because of increased funding. Wright is leading the mayor's AgTech initiative, which started in 2019. This year they are exploring funding opportunities for the recommendations made by the Shelman Group, plus the mayor made an ARPA proposal to jump-start this process. They continue to work with existing AgTech businesses to help them explore business development opportunities. Lastly, she thanked the council for their participation in the recent and successful Council Ag Day.

Plomin and Wright talked about the summit in 2020, which was offered in-person and had an overwhelming amount of participants. Wright said logistically it was too much to manage so they are trying to pair down content while keeping folks engaged for the next summit. J. Brown spoke about Wright's efforts to make healthy food more accessible to people in the community. He understands there are challenges with trying to diversify that space across the city. He also mentioned the additional funding to help diversify food providers and programming.

Reynolds commended the work to make the CSA program more accessible to other farms and to expand it, making it more equitable. Kay talked about this program far exceeding expectations and said the

AgTech initiatives present an incredible opportunity for the community, including the farm community, people with health issues, and the local economy.

VI. Committee Referrals

Motion by J. Brown to remove the *Local Small Business Economic Stimulus Program 2020* from the committee, seconded by Lamb. The motion passed without dissent (Ellinger, Worley, and F. Brown were absent for this vote).

Motion by Kay to report out fund balance motions today at works session (check motioner and seconder); seconded by J. Brown. The motion passed without dissent (Ellinger, Worley, and F. Brown were absent for this vote).

Motion by Plomin to adjourn at 2:48 pm; seconded by Lamb. The motion passed without dissent (Ellinger, Worley, and F. Brown were absent for this vote).

Materials for the meeting:

<https://lexington.legistar.com/MeetingDetail.aspx?ID=900475&GUID=F33D773D-3751-4249-B185-1B11AC6B67B2&Options=info|&Search>

Video recording of the meeting: http://lfucg.granicus.com/player/clip/5459?view_id=4&redirect=true

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