Budget, Finance & Economic Development Committee
September 22, 2020
Summary and Motions

Committee chair, Amanda Bledsoe, called the meeting to order at 1:02 p.m. Committee members Steve Kay, Richard Moloney, Chuck Ellinger, James Brown, Susan Lamb, Bill Farmer, Lisa Higgins-Hord, Fred Brown, and Jennifer Mossotti were in attendance. Councilmembers Josh McCurn, Mark Swanson, Preston Worley, Jennifer Reynolds, and Kathy Plomin attended as voting members (by way of a motion made on August 25.)

Bledsoe read the following statement: "Due to the COVID-19 pandemic and State of Emergency, this meeting is being held via live video teleconference pursuant to 2020 Senate Bill 150, and in accordance with KRS 61.826, because it is not feasible to offer a primary physical location for the meeting."

I. Approval of August 25, 2020, Committee Summary

Motion by Lamb to approve the August 25, 2020, Budget, Finance & Economic Development Committee summary; seconded by Kay. The motion passed without dissent.

II. Financials Update – August 2020

The presentation covered the first two months of the fiscal year. Wes Holbrook, Director of Revenue, talked about unemployment rates for Fayette County, Lexington-MSA, and the state, which seem to be disconnected from the national rate. The preliminary employment data shows a drop off after June, which Holbrook said may be impacted by support from the PPP loan ending in July and August. He also noted a spike in initial unemployment claims in July. Occupational tax is ahead of budget but that could be due to the timing of the extra pay period that comes once a quarter, in which case the variance will likely level out with October collections. The variance in net profit is probably a residual effect from the delayed filing deadline; Holbrook expressed caution due to the volatile nature of this revenue. He reported insurance and franchise fees, which were reduced in this budget, are tracking well. He showed a comparison of the current-year to prior-year and noted how you will be able to see the third pay period impact year over year in October.

Melissa Lueker, Director of Budgeting, said the negative variance in property tax is because of the delay to adopt the rates, which happened in September. She said services revenue is down, primarily due to Parks and Recreation (i.e. canceled events, programs, and camps) but this area also has savings in expenses. She described the other revenue as volatile and reported a $3.5 million positive variance for all revenue. Under expenses, personnel has a $3.5 million positive variance with savings in every category. She explained the timing difference for insurance subsidies, which they estimate to be overstated by $800,000-$900,000. Operating is $3.5 million ahead of budget; the savings are for a wide variety of reasons, potentially including how the administration is limiting access to the budget, making funds available by quarter. She reported the overall change in fund balance at $10.7 million. She showed the similarities between the current-year and prior-year and noted that the debt service variance is due to timing. [Note: an exhibit with charts from the presentation is provided at the end of this summary.]

Lamb asked how personnel was proceeding this year. Sally Hamilton, CAO, said 47 positions were not budgeted this year but all others are moving forward. The city is not getting a large number of applicants; for example, Parks and Recreation is unable to fill their public service worker positions. They discussed a lot [of governments] are having this issue and Hamilton pointed out large companies paying $15 per hour, plus Amazon is hiring a large number of people. <u>No action was taken on this item.</u>

2021 Fiscal Year – Cash Flow Variance Revenue (Actual to Budget)

For the two months ended August 31, 2020	Actuals	Budget	Variance	% Var
<u>Revenue</u>				
Payroll Withholding	33,786,545	30,342,281	3,444,264	11.4%
Net Profit	2,265,732	1,452,147	813,585	56.0%
Insurance	8,370,389	8,311,177	59,212	0.7%
Franchise Fees	4,326,411	4,264,107	62,304	1.5%
Other Licenses & Permits	413,737	411,607	2,130	0.5%
Property Tax Accounts	202,116	298,123	(96,007)	-32.2%
Services	3,377,763	3,958,256	(580,493)	-14.7%
Fines and Forfeitures	21,855	41,667	(19,812)	-47.5%
Intergovernmental Revenue	12,212	19,668	(7,456)	-37.9%
Property Sales	-	25,000	(25,000)	-100.0%
Investment Income	1,096	167,142	(166,046)	-99.3%
Other Financing Sources	-	-	-	-
Other Income	250,705	246,992	3,713	1.5%
Total Revenues	**$53,028,561**	**$49,538,167**	**$3,490,394**	**7.0%**

2021 Fiscal Year – Cash Flow Variance Expense (Actual to Budget)

For the two months ended August 31, 2020	Actuals	Budget	Variance	% Var
Personnel	28,063,141	31,614,492	3,551,352	11.2%
Operating	6,002,516	9,459,795	3,457,280	36.5%
Insurance Expense	994,241	958,086	(36,155)	-3.8%
Debt Service	4,941,859	4,941,859	0	-
Partner Agencies	3,130,539	3,279,922	149,383	4.6%
Capital	93,844	30,809	(63,035)	-204.6%
Total Expenses	**$43,226,140**	**$50,284,964**	**$7,058,824**	**14.0%**
Transfers	**907,210**	**1,106,400**	**199,190**	**99.9%**
Change in Fund Balance	**$8,895,211**	**($1,853,197)**	**$10,748,408**	**-**

III. Assessment of LFUCG Owned Property for Potential Revenue and Cost Savings Opportunities

Jamshid Baradaran, Director of Facilities and Fleet Management, highlighted the property report, including a total of 658 properties that the city owns and operates. Parks and Recreation properties are primarily athletic fields and open space but also have buildings and structures. Fire mostly consists of fire stations. He explained how Water Quality properties are complicated and dynamic, highlighting two categories: parcels (often related to flooding) or processing operations (for the sanitary and storm sewer systems). He reviewed how deed restrictions come into play with the transfer of property, particularly for parcels collected because of flooding that doesn't have much commercial value. The miscellaneous group of properties includes facilities such as the detention center and Waste Management facilities. He said the report provides an overview of who is responsible for the properties and the nature of the property. He outlined possible evaluation criteria that could be used to identify properties to be considered for surplus or disposal. The criteria included ownership, use, occupancy, the impact of disposal on core services, and the short and long term financial impact. He concluded by pointing out the full list of the city's holdings in the packet.

Bledsoe spoke about the council building consensus on the criteria and introduced the idea of a subcommittee to apply the criteria and report back to the committee, which will require additional conversation. Mossotti established Baradaran did not have any immediate recommendations. He explained their focus to gain efficiencies on LFUCG operational centers that provide core services; other areas will likely take council input. For example, they shifted the use of space at the Black & Williams Neighborhood Center to reduce operating costs. He also mentioned the possibility of COVID-19 impacting the need for space.

A motion to refer this item to the Planning and Public Safety Committee was ultimately withdrawn after much discussion, which focused on the original intent of the item relating to the budgetary implication of reviewing the city's assets (land and buildings) and their use moving forward.

McCurn suggested first looking at the areas people are interested in taking from us. He and Baradaran discussed how the small parcels with little value have very little liability but the cost to maintain them is more significant. Baradaran pointed out restricted uses for properties tied to FEMA, CDBG, or other funding and explained how they receive requests to purchase properties but the options for individual properties must be verified. McCurn and Hamilton reviewed how CDBG funds have to be repaid if properties are sold; for example, the old senior center was sold to the University of Kentucky, who did not plan to use it for a CDBG-approved use. Baradaran said these restrictions are identified in the report.

Moloney talked about the coordination and transfer of the parking garages several years ago and the need to get rid of buildings. He mentioned the community benefit of the downtown art buildings but said there is an opportunity to encourage a similar partnership among them. He believes the city is holding people back by owning these facilities. Baradaran recalled when the city was responsible for five parking garages, owing millions of dollars in deferred maintenance, and pointed out access to an organization that had the impetus to take on this responsibility. He agreed with the opportunity for the art facilities downtown. Moloney spoke about the condition of these buildings, which he said they need management and ideas.

J. Brown spoke about looking at this item through the lens of assets. He recommended community benefit and cultural impact to also be considered with the proposed evaluation criteria, specifically for community centers and parkland. Reynolds asked for financial information associated with properties such as the amount the city spends, rent, or the sale price, which Baradaran can provide. Reynolds pointed out the benefit of art organizations but how many aren't paying much rent, as well as the importance of having an accurate picture of what's happening.

F. Brown suggested the district councilmembers review the properties in the report that are in their district and provide some ideas to the subcommittee to get started. Kay talked about the subcommittee first sorting out the properties that we own, occupy, and need. He said we should review any properties that council members recommend and suggested the goal be to create a shortlist of properties to review as well as refine the evaluation criteria. He offered to serve on the subcommittee.

Lamb asked why Police facilities were included in Facilities and Fleet Management. Baradaran said the properties are divided by who provides the day to day operations. The Division of Fire has its own staff dedicated to their facilities, many of which are open 24-hours a day and sometimes require immediate attention. Facilities and Fleet Management provide all facility operational services for Police facilities, two of which are leased. Mossotti confirmed the leases of properties could be attached to the report.

Bledsoe confirmed the subcommittee would start its work with the five criteria outlined in the presentation as well as cultural impact and experiences, price tag/land value, community value, and land swap/desire of property by other groups. She will put together the subcommittee who will report back to the full committee. No action was taken on this item.

IV. Revenue Sources

Kay explained he is not proposing to increase revenue; instead, he talked about the need to consider this as part of the ongoing budget discussions while dealing with the impact of COVID-19. He reviewed a collection of slides from previous presentations, covering rising costs and the projected deficit absent any revenue enhancements (projections before and after COVID-19). He showed the use of one-time funds to balance the FY21 budget as well as the decline in revenue from FY19 to FY21. He outlined cuts made between these years in personnel, operating, and bonding. He explained why the council should consider increasing revenue; Lexington ranked 10th best place for young professionals by Smart Assets Management. Kay said government services, which costs money, are a key component for making Lexington the best. He spoke about the community's expectation for excellent services and recently seeing a flyer from the Department of Environmental Quality and Public Works that eluded to a reduction in services, such as mowing schedules. He referenced Lexington's median income levels, which are higher than much of the state, and LFUCG's efforts to help with hunger, homelessness, and struggling businesses, all are needs that will likely increase before they go away. Deferred maintenance was mentioned, which costs more in the long run.

Kay provided a chart that showed the impact of a .25 percent payroll tax increase at various income and net profit levels ranging between $15,000-$100,000. He concluded that if we aim to generate $27M in additional revenue, the average increase for households making $60,000 annually would be $150 per year. He said this only applies to people earning income, it doesn't apply to other government benefits, and ultimately affects people who have been least affected by COVID-19. He explained this is not the only option but it is the easiest, adding that we have made budget cuts and one-time funds are depleted. He asked the council to give raising revenue some consideration, to use this presentation to talk with constituents about the present fiscal status as well as challenges and hard choices before us.

Swanson asked about how Lexington compares to other cities in Kentucky in payroll tax rates, taking into consideration stacked rates. Holbrook said for surrounding counties, Versailles and Winchester (with stacked rates) are higher, Paris is equivalent, and Nicholasville, Richmond, and Georgetown are lower. Covington, Ky has different tax rates for different levels of income and profits. Swanson asked about the possibility of exempting people making under 80 percent AMI from tax increases. Holbrook said we would have to look at Covington's authorizing legislation.

J. Brown said the presentation lays the groundwork to get feedback from constituents; he asked about next steps for the committee. Kay said this should happen as we begin to think about next year's budget (FY22). He wanted to explain why this makes sense and encouraged the council to talk with their constituents. He believes there are a lot of people who understand the need for revenue to operate the city effectively and efficiently, adding that the cost increases would be relatively low. He suggested the item remain in committee and to consider specific recommendations if it makes sense.

Moloney talked about three options to help our financial situation: raising taxes, which he said is the easiest route; start making drastic cuts, which he said the city hasn't made enough cuts to resort to revenue increases; and to bring jobs to Lexington, which he spoke about Lexington being in a great place to live, especially compared to big cities and the challenges they face. Moloney said we need to look at all the options and that we have to feel the pain of real cuts before raising taxes.

Plomin talked about Lexington's position compared to the rest of the country, being one of the best places for young people to relocate to, and that it's going to take more revenue to sustain the reasons people come here to work. Kay agreed all options are on the table and said we need to have a robust conversation about how to address the situation we are in. He talked about the lens or perspective of economic wellbeing and quality of life, and whether we can sacrifice that and still be okay. He doesn't want to sacrifice the good job the city has done, being one of the most attractive places to come to.

Mossotti asked about other options to increase revenue. Bill O'Mara, Commissioner of Finance, outlined the top four taxes: payroll, net profit, insurance premium, and franchise fees, as well as other various fees and services. Mossotti said we need to look at all of these. They discussed a payroll tax increase in the 1990s where the rate was raised for a certain period, then lowered after a sunset clause. She believes we have always relied too heavily on payroll tax and has concerns about a rate increase when unemployment is high; adding it may be difficult to raise the money we think we can.

Farmer recalled the rate increase in the '90s being tied to a federal court order to build a new jail, raising rates from 2 to 2.5 then back down to 2.25 percent. Farmer asked about a timeframe for this, which Kay said he wants to address the issues and questions raised today and mentioned the discussion of fund balance and allocation of other resources scheduled for next month. He is interested in the council finishing its deliberations of potential revenue enhancement as the administration starts to construct the budget; hypothetically if the council found a good idea to raise revenue, he would like to see that in the Mayor's revenue projections. David Barberie, Managing Attorney, reminded the council the only deadline to increase rates is for insurance premiums, which has to be done at the beginning of March.

V. Coronavirus Relief Fund Proposals

Bledsoe stated her intentions for this conversation to continue in the October 27 committee meeting, the same meeting the administration will present the FY20 fund balance. She asked for all funding proposals for the fund balance/coronavirus relief funds discussion, to be submitted by October 20.

Brandi Peacher, Mayor's Office, reported the city received $24,647,733 of the approved applications to the Department of Local Government for coronavirus relief funds, which were allocated to the economic contingency fund and budget stabilization fund. She said the first phase of funding ($726,000) has been distributed to partner agencies under the recently approved household assistance programs.

J. Brown explained that because coronavirus relief funds are available now, which provide an opportunity to benefit the community, he would like the council to consider funding the Fifth and Chestnut (Palmer's Pharmacy) building and RFP proposal. The mayor's proposal, originally for $450,000, is to remediate and renovate the facility and to issue an RFP to look for agencies that can provide community resources from the building. The total request was reduced to $300,000. J. Brown said the project protects a cultural landmark and addresses the needs of that community and that corner in regards to public safety and community development.

<u>Motion by J. Brown to allocate $300,000 for the renovation and remediation of the Palmer's Pharmacy building (Fifth and Chestnut) and issue an RFP for interested partners to provide services at the facility; seconded by Farmer. The motion passed with a 14 - 1 vote. (Moloney voted no.)</u>

Discussion on the motion included the following. Moloney mentioned potential budget shortfalls and that the mayor could include this in the proposed budget for next year. He stressed waiting until October to fund any proposal and the importance of basic services; to help basic services if there is a surplus. Kay spoke about this project reaching folks most differentially impacted by COVID-19 and how the property has been a blight since he has lived here. He advocated this allocation of funds would make more difference to a specific neighborhood and community than any other allocation, explaining it allows the city to solicit partners. Farmer spoke about the dynamics and opportunity of the situation, adding that the RFP has to come back and work. He said this is the time and opportunity to turn a historic building into something better, for the city but especially for the neighborhood.

Swanson and J. Brown discussed the need to fund this now versus in October; referencing how the corner has needed attention for a long time, the effects of COVID-19 continues to grow, and to get the ball rolling to provide opportunity and resources to that neighborhood and the whole city. Mossotti asked about the programming for the building. J. Brown said there is an interest in an economic development type partnership (the neighborhood already has a lot of social services). He listed serval agencies who have expressed an interest in partnering, pointing out the cost to refurbish the property is the barrier we keep coming back to. He said the goal is for the partner to take ownership of the facility and mentioned the opportunity in regards to gentrification and redevelopment to invest in the building, making it a community asset. Mossotti said it would be important for the partner to not only own it but also maintain it; something that could be included in the RFP.

Higgins-Hord spoke about the building's rich history of African Americans, how remediation would benefit the community by preserving all that Dr. Palmer, a city-minded businessman, accomplished in the 1960s being the first African American to own a pharmacy franchise in U.S. Ellinger and J. Brown discussed how the proposal includes environmental remediation (about $100,000), which is necessary even if it was demolished, some structural integrity including the roof (about $100,000-$200,000), and to issue an RFP for a community partner. J. Brown explained the transfer of ownership depends on the community partner but the intent is to transfer ownership. Ellinger mentioned the interest to divest of property and confirmed the city currently owns the building.

Moloney recalled the original cost estimates for this project being about $1M and suggested moving forward with an RFP but to address the funding later. He is concerned about the city having to make all the repairs before transferring the building and questioned if this is addressed in the RFP. J. Brown said a recent RFI didn't get any responses and the proposal will get the facility to a safe clean slate to build from. Mossotti wants to ensure we don't own or maintain it but doesn't want to give it away either. Barberie explained the RFP will allow for some flexibility in the responses but it would be clear about ownership and maintenance but ownership could mean lease to own or straight transfer, for example. He added funds won't be spent until we have a partner we can count on and that we might have to move in a different direction if we don't get the right responses. Mossotti said this needs to be fair for the partners too.

Worley suggested we let the market tell us what options there are while also being clear about our expectations. He said this is largely determined by what the potential partners can bring forward. Plomin described the project as a statement to a part of the community that has had experienced disparity through COVID-19 and emphasized resources for economic development to enhance the area. She and Hamilton discussed how the property is eligible for up to 30 percent historical tax credits but that it isn't registered yet; it would require a private entity to get the tax credit and this would likely deal with a non-profit. Plomin said she has seen a private entity partner temporarily to provide the opportunity for those credits. The motion passed with a 14 - 1 vote.

VI. Items Referred to Committee

No action was taken on this item.

A motion was made Higgins-Hord to adjourn (at 3:09 p.m.); seconded by Lamb. The motion passed without dissent.

Link to video of the meeting: http://lfucg.granicus.com/MediaPlayer.php?view_id=4&clip_id=5215

HBA 10/21/20