



## Budget, Finance & Economic Development Committee

August 31, 2021

### Summary and Motions

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Committee chair, Council Member Amanda Bledsoe, called the meeting to order at 1:01 p.m. Committee members Vice Mayor Steve Kay and Council Members Richard Moloney, Chuck Ellinger, James Brown, Josh McCurn, Susan Lamb, Fred Brown, and Kathy Plomin were present. Council Member Preston Worley was absent. Council Members Liz Sheehan and Jennifer Reynolds attended as non-voting members.

#### I. Approval of June 29, 2021 Committee Summary

Motion by Plomin to approve the June 29, 2021, Budget, Finance, and Economic Development Committee summary; seconded by Ellinger. The motion passed without dissent.

#### II. Items Referred to Committee

Motion by F. Brown to remove the following items: *assessment of LFUCG owned property for potential revenue and cost savings opportunities (No. 7), industrial revenue bond fee schedule amendments (No. 12), proposals for coronavirus relief funds and fund balance (No. 13), and economic development partnership services RFP (No. 17)*; seconded by Kay. The motion passed without dissent.

Initiatives related to item no. 7 remain in the LFUCG Property Assessment Subcommittee. Bledsoe said the *economic development partnerships update* (item no. 11) would become an annual update item.

#### III. Monthly Financial Update – July 2021

The monthly financial report was provided for information only. Bledsoe reviewed a few highlights. The last few pages of the financial update include up-to-date revenue and expenses for ARPA State and Local Recovery Funds, which will remain a component of the committee's financial reports going forward.

F. Brown and Erin Hensley, Commissioner of Finance, discussed two reports that were due by August 31<sup>st</sup> for ARPA, the interim report and the (annual) recovery plan, which totaled 67 pages for the previously allocated \$8M. Each project will have a detailed form. LFUCG is required to report expenditures by code (e.g. EC 1, 2, etc.) The information provided in the packet mirrors what is in the reports. F. Brown pointed out line-items for neighborhood recreation improvements for each park, which provides insight for the projects that the council approves and required details. Hensley explained they will track how much was allocated and how much the city is spending for each project, to know if they have met the budgetary requirements. Projects can also qualify differently, which they are also tracking; for example, within a qualifying census tract or for tourism.

Lamb believes it's in the best interest for the public to understand the details that LFUCG has to consider to use ARPA funds. Bledsoe clarified that once a project is approved it will be added to the reporting structure included in this financial report. Kay agreed it would be helpful for the public to understand the reporting requirements. He invited council members to submit other suggestions for information that would be helpful for the next committee of the whole meeting dedicated to ARPA. He said a lot of details will come after they have narrowed down the list of projects. Lamb and Bledsoe discussed how some projects that were submitted are conceptual and how LFUCG is learning as we go, particularly how

ARPA funds are not the best use for some projects because they would be too cumbersome administratively. Lamb concluded the projects list creates a wish list for the future and said ideas won't be thrown to the curb. No action was taken on this item.

**July 2021 YTD Actual Compared to Adopted Budget:**

<b><u>Revenue Category</u></b>	<b><u>Actual</u></b>	<b><u>Budget</u></b>	<b><u>Variance</u></b>	<b><u>% Var</u></b>
OLT- Employee Withholding	14,376,233	12,270,000	2,106,233	17.2%
OLT - Net Profit	1,468,398	910,000	558,398	61.4%
Insurance	2,450,488	3,220,000	(769,512)	-23.9%
Franchise Fees	2,376,097	2,320,000	56,097	2.4%
<b>TOTALS</b>	<b>20,671,216</b>	<b>18,720,000</b>	<b>1,951,216</b>	<b>10.4%</b>

**July 2021 YTD/July 2020 YTD Current Year Compared to Prior Year:**

<b><u>Revenue Category</u></b>	<b><u>Jul '21</u></b>	<b><u>Jul '20</u></b>	<b><u>Diff</u></b>	<b><u>% Var</u></b>
OLT- Employee Withholding	14,376,233	13,002,271	1,373,962	10.6%
OLT - Net Profit	1,468,398	8,144,267	(6,675,869)	-82.0%
Insurance	2,450,488	2,820,646	(370,158)	-13.1%
Franchise Fees	2,376,097	2,339,091	37,006	1.6%
<b>TOTALS</b>	<b>20,671,216</b>	<b>26,306,275</b>	<b>(5,635,059)</b>	<b>-21.4%</b>

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

<b><u>For the one month ended July 31, 2021</u></b>				
	<b><u>Actuals</u></b>	<b><u>Budget</u></b>	<b><u>Variance</u></b>	<b><u>% Var</u></b>
<b>Revenue</b>	-	-	-	-
<b>Payroll Withholding</b>	<b>14,376,233</b>	<b>12,270,000</b>	<b>2,106,233</b>	<b>17.2%</b>
<b>Net Profit</b>	<b>1,468,398</b>	<b>910,000</b>	<b>558,398</b>	<b>61.4%</b>
<b>Insurance</b>	<b>2,450,488</b>	<b>3,220,000</b>	<b>(769,512)</b>	<b>-23.9%</b>
<b>Franchise Fees</b>	<b>2,376,097</b>	<b>2,320,000</b>	<b>56,097</b>	<b>2.4%</b>
<b>Other Licenses &amp; Permits</b>	<b>43,693</b>	<b>270,583</b>	<b>(226,890)</b>	<b>-83.9%</b>
<b>Property Tax Accounts</b>	<b>-</b>	<b>15,333</b>	<b>(15,333)</b>	<b>-100.0%</b>
<b>Services</b>	<b>1,986,937</b>	<b>1,949,768</b>	<b>37,169</b>	<b>1.9%</b>
<b>Fines and Forfeitures</b>	<b>10,315</b>	<b>20,833</b>	<b>(10,518)</b>	<b>-50.5%</b>
<b>Intergovernmental Revenue</b>	<b>77,539</b>	<b>22,178</b>	<b>55,361</b>	<b>249.6%</b>
<b>Property Sales</b>	<b>35,115</b>	<b>8,333</b>	<b>26,782</b>	<b>321.4%</b>
<b>Investment Income</b>	<b>-</b>	<b>16,020</b>	<b>(16,020)</b>	<b>-100.0%</b>
<b>Other Income</b>	<b>158,393</b>	<b>101,883</b>	<b>56,510</b>	<b>55.5%</b>
<b>Total Revenues</b>	<b>\$22,983,208</b>	<b>\$21,124,931</b>	<b>\$1,858,277</b>	<b>8.8%</b>

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

<i>For the one month ended July 31, 2021</i>				
	<b>Actuals</b>	<b>Budget</b>	<b>Variance</b>	<b>% Var</b>
<b><u>Expense</u></b>				
Personnel	11,823,432	12,395,985	572,553	4.6%
Operating	4,525,138	7,256,046	2,730,908	37.6%
Insurance Expense	226	226	0	-
Debt Service	4,538,622	4,538,622	0	-
Partner Agencies	1,498,394	1,837,054	338,660	18.4%
Capital	5,832	241,208	235,376	97.6%
<b>Total Expenses</b>	<b>\$22,391,644</b>	<b>\$26,269,141</b>	<b>\$3,877,497</b>	<b>14.8%</b>
<b>Transfers</b>	<b>463,087</b>	<b>463,087</b>	<b>0</b>	<b>-</b>
<b>Change in Fund Balance</b>	<b>\$128,477</b>	<b>(\$5,607,297)</b>	<b>\$5,735,774</b>	

**IV. Local Small Business Economic Stimulus Program 2020**

Tyrone Tyra, Senior Vice President of Community & Minority Business Development for Commerce Lexington, first talked about the 2020 Local Small Business Economic Stimulus Program. The information provided is based on a form that LFUCG created for program reporting and the data comes from 77 percent of participants. The average monthly payroll and average total monthly full-time employees were outlined for January, March and December 2020, and May 2021. Tyra pointed out the dip in full-time employees in December and said the employment level has not fully recovered yet. He provided a brief update on the 2021 Small Business Economic Recovery Program, which is more extensive than the 2020 program. They continue to hear how important these funds are to the businesses. They dispersed \$3.79M and about \$500,000 remained available for allocation. Members and the Access Loan Committee and Traditional Bank were thanked for making this work possible.

Worley spoke about businesses as the lifeblood of Lexington's economy. He talked about these programs showing the need for support is overwhelming, particularly by how quickly the funds have gone out. Reynolds confirmed the 2021 stimulus program is still open and accepting applications. Tyra explained this program requires a lot of applications for funds because of the program criteria, which helps determine the appropriate level of funds to award. Applicants can only apply once for this program. They discussed the effort made to follow up with people and answer questions; Commerce Lexington has four people returning calls.

Tyra said they hired Falon McFarland to assist with the program. J. Brown asked what the next step is to help the small business community bounce back from the pandemic. Tyra said he is encouraging businesses to look at their finances. Tyra also suggested making it easier for businesses to get involved in city contracts, which LFUCG's minority business liaison is working on, and helping businesses to develop partnerships to expand and identify new targets. He is working with Sherita Miller on reworking a training program as well.

Ellinger pointed out this program is different from the 2020 program because funds have to be returned if outcomes aren't met. Tyra said the closing of the grant helps emphasize it is a one-year agreement.

Commerce Lexington has planned three check-ins with the awarded businesses. That process will start once all funds have been expended.

Moloney asked if the businesses are having a hard time with employment. Tyra said a lot of the awarded businesses are using the money to retain employees, for example, giving them bonuses. He talked about several employment factors. Some employers, who have strong benefits, are turning people away. Many folks are switching jobs by choice. People are starting businesses at a record rate. Tyra added that a consultant who advises Commerce Lexington doesn't anticipate a "magic bounce back" in employment.

Lamb asked about the number of new businesses that Commerce Lexington has met through these programs and if it has increased the diversity of its membership. Tyra said some businesses are visiting their offices for the first time and the Accelerator program is asked about frequently. They plan to follow up with these businesses in the future.

In response to Bledsoe, Kevin Atkins, Chief Development Officer, said Commerce Lexington met and exceeded on all fronts of the program. Payroll and employment numbers show the average number of employees was under 10, meeting the focus to reach true small businesses; past presentations showed the program far exceeded the goal for 50 percent of the funds to reach women- and minority-owned businesses. No action was taken on this item.

#### **V. Bluegrass Farm to Table Update (annual)**

This item was postponed and will be rescheduled. No action was taken on this item.

#### **VI. Budgeting Models and LFUCG Budgeting**

Bledsoe first recalled the work of a task force in 2019 with Mayor Gorton that looked at how we can improve the city's budget and finances. This presentation covers some of the items from that work. Erin Hensley began the presentation talking about the purpose and goals of a government's budget. She explained four budgeting approaches, reviewing the pros and cons for each. *Incremental budgeting* is most commonly used and easiest to understand. *Budget for outcomes* (focuses on community priorities) and the *performance-based approach* (more data-driven and works well for situations like ARPA) are similar; LFUCG accounting is not set up structurally for them. The *zero-based approach* requires intentional thought and justification for every dollar. Hensley said 65 percent of the city's budget is an inflexible cost due to personnel; if you take into consideration other annual funding obligations (such as occupancy costs, debt service, insurance, the Extended Social Resource program, etc.), these in total represent over 80 percent of the budget and prevent LFUCG from starting at zero.

Hensley reviewed the annual budgeting process, pointing out how the Division of Budgeting meets with each division monthly to review their budget. Divisions are asked to justify their operating budgets each year as well as provide performance measures. LFUCG's hybrid budgeting includes components of *incremental*, *zero-based*, and *performance-based budgeting*. She outlined best practices identified by the Government Finance Officers Association. The 2019 workgroup created a list of criteria they wanted to enhance the budget process with, some of which are already accomplished. Some of those criteria included publishing the *Budget in Brief* book and making the budgeting process more collaborative among the council and mayor earlier in the process. The last two recommendations regard the volume of budget amendments and a process for a Capital Improvement Plan. Budget amendments are cumbersome and some are insignificant; this should be reviewed to see if there are changes the council

is comfortable with. The process for the CIP is designed to look at long-range expenditures to have a better idea of what's coming.

Bledsoe talked about a process for members of the council and the administration to work together before the budget process starts (maybe September) on a long-term CIP; a joint effort to influence the CIP. This could be a pilot project this year that make a recommendation for the process going forward. In regards to budget amendments, Bledsoe pointed out the council's consideration of consent agendas in the past and talked about balancing transparency with being fiscally responsible, for example, staff time to process all the budget amendments. She suggested a pilot project that would modify what budget amendments would require the council's approval for grant projects and funds.

Moloney agreed the council doesn't need to spend as much time as it does on budget amendments for a small amount of money and referenced how it works differently at the state level. He encouraged the administration to share draft language [to amend necessary ordinances] that would modify the process.

F. Brown referenced the GFOA best practices related to unrestricted fund balance; he is not happy with how LFUCG portrays this. He mentioned the Comprehensive Annual Financial Report and outstanding awards in past years, which means the city is doing things right. He prefers all budget amendments that affect fund balance to go through the council for approval no matter the amount. He and Hensley discussed divisions that have a CIP (e.g. Police, Fire, and Parks and Recreation). Bledsoe said the idea is to not wait until the budget process to see the CIP, it would be a joint effort with the council earlier in the year.

J. Brown asked about parameters if a pilot project was tested for budget amendments with grants. They will need to review an ordinance from the 1970s that direct budget amendments. Hensley said the council would need to be informed of the grant budget, major changes in scope or funding, and the end result. Council would want to establish a threshold for change in revenue and determine what level of movement within expenditure categories was allowed if they aren't triggering the funding source.

Lamb recalled changes within LFUCG made over the years to be more efficient, which she compared to the possibility of improving budget amendments. She wants to continue to improve transparency and engagement with the public so they know where to look at things. The council often doesn't discuss CIP projects until the budget or when a project begins. Kay said the city is not looking for a return on investment and therefore the budget process is different from a corporate setting. He is in favor of simplifying budget amendments. Regarding the CIP process, he compared the project list in the Lexington Area Metropolitan Planning Organization; the list could be used as a base and modified. Kay pointed out various categories of fund balance and how they were used in the past to help with cash flow; ultimately he questioned how formal the process for unrestricted fund balance needs to be.

Sheehan talked about how helpful it was to participate in the mayor's budget hearings and asked what else can be done towards a collaborative budget review process. Hensley highlighted a couple of opportunities including the council's involvement in Budgeting's monthly meetings with divisions to review their budget and additional support for new council members before the council's budget process starts. Hensley said the budget retreats that provide an opportunity for a dynamic conversation can only go further in future years.

Sally Hamilton, CAO, said the CIP process doesn't mean each division submits their full CIP. She then explained the state process. Every state agency submits their (two-year) capital budget, a committee composed of various parts of the government ranks those projects, and then the ranked list is submitted

to the legislature. The legislature would often amend the list but it was a good guidance process. Hamilton talked about this kind of process helping everyone. Moloney and Bledsoe discussed the at-large council members serving on the group, particularly because the purpose is long-range planning and they have four-year terms. Bledsoe asked the administration to come back with (1) a proposal on how to do a CIP process and (2) what a modified process for budget amendments tied to grants would look like, including changes to the ordinance for the next meeting. No action was taken on this item.

Motion by Kay to adjourn (at 2:24 p.m.); seconded by Ellinger. The motion passed without dissent.

Materials for the meeting:

<https://lexington.legistar.com/MeetingDetail.aspx?ID=890624&GUID=46E8842D-4BCD-467F-A532-3DDC75512071&Options=info|&Search>

Video recording of the meeting: [http://fucg.granicus.com/player/clip/5423?view\\_id=4&redirect=true](http://fucg.granicus.com/player/clip/5423?view_id=4&redirect=true)

HBA 9/22/21