Budget, Finance & Economic Development Committee

September 28, 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, Fred Brown, and Kathy Plomin were present. Council Member Preston Worley was absent. Council Members David Kloiber, Whitney Baxter, and Jennifer Reynolds attended as non-voting members.

I. Approval of August 31, 2021 Committee Summary

Motion by Plomin to approve the August 31, 2021, Budget, Finance, and Economic Development Committee summary; seconded by Ellinger. The motion passed without dissent.

II. Monthly Financial Update – August 2021

The monthly financial update was provided for information only. Bledsoe pointed out that revenue is above budget, largely due to payroll withholding. No action was taken on this item.

August 2021 YTD Actual Compared to Adopted Budget:

Revenue Category	Actual	Budget	Variance	% Var
OLT- Employee Withholding	38,741,290	34,120,000	4,621,290	13.5%
OLT - Net Profit	2,308,084	2,410,000	(101,916)	-4.2%
Insurance	9,021,541	8,640,000	381,541	4.4%
Franchise Fees	4,273,901	4,350,000	(76,099)	-1.7%
TOTALS	54,344,816	49,520,000	4,824,816	9.7%

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

Revenue Category	Aug-21	Aug-20	Variance	% Var
OLT- Employee Withholding	38,741,290	33,786,545	4,954,745	14.7%
OLT - Net Profit	2,308,084	9,661,885	(7,353,801)	-76.1%
Insurance	9,021,541	8,370,389	651,152	7.8%
Franchise Fees	4,273,901	4,326,411	(52,510)	-1.2%
TOTALS	54,344,816	56,145,230	(1,800,414)	-3.2%

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

For the two months ended August 31, 2021				
	Actuals	**Budget**	**Variance**	**% Var**
Revenue	-	-	-	-
Payroll Withholding	38,741,290	34,120,000	4,621,290	13.5%
Net Profit	2,308,084	2,410,000	(101,916)	-4.2%
Insurance	9,021,541	8,640,000	381,541	4.4%
Franchise Fees	4,273,901	4,350,000	(76,099)	-1.7%
Other Licenses & Permits	502,897	542,985	(40,088)	-7.4%
Property Tax Accounts	303,748	227,892	75,856	33.3%
Services	4,163,436	4,006,306	157,130	3.9%
Fines and Forfeitures	27,685	41,667	(13,982)	-33.6%
Intergovernmental Revenue	84,663	44,650	40,013	89.6%
Property Sales	51,072	16,667	34,405	206.4%
Investment Income	-	32,529	(32,529)	-100.0%
Other Financing Sources	40,000	40,000	0	0.0%
Other Income	441,844	198,957	242,887	122.1%
Total Revenues	**$59,960,161**	**$54,671,653**	**$5,288,508**	**9.7%**

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

For the two months ended August 31, 2021				
	Actuals	**Budget**	**Variance**	**% Var**
Expense				
Personnel	29,685,754	30,338,958	653,204	2.2%
Operating	7,397,774	12,090,799	4,693,025	38.8%
Insurance Expense	1,263,377	1,236,829	(26,548)	-2.1%
Debt Service	4,538,622	4,538,622	0	0.0%
Partner Agencies	3,026,661	3,689,646	662,985	18.0%
Capital	49,972	467,438	417,466	89.3%
Total Expenses	**$45,962,160**	**$52,362,292**	**$6,400,132**	**12.2%**
Transfers	**6,727,714**	**6,637,567**	**(90,147)**	**-1.4%**
Change in Fund Balance	**$7,270,287**	**($4,328,206)**	**$11,598,493**	

III. Attracting Remote Workers to Relocate to Lexington-Fayette County

Lincoln Brown, Social Impact Investor and Advisor, and Serial Entrepreneur described their effort to seek out the Kiser Foundation, which focuses solely on Tulsa, a city similar to Lexington, and has studied different concepts to help their community. *Tulsa Remote* attracts remote workers to move to Tulsa with a small stipend; the workers it attracts on average have a salary of more than $100,000 and they have a retention rate of 80 percent after two years. He said this is an opportunity to create a top five private employer in a short amount of time, which could help attract more tech workers. Hannah Conover, VP of Operations of Kentucky 2030 Project, said the focus of Kentucky Remote is broadly economic development but it attracts individuals versus businesses. They spent the last year researching similar programs. These programs typically consist of an application (online) and interview, a relocation grant (on average $10,000 paid over one year), and community and retention, which is the most important component so people stay. She provided statistics about the Tulsa program, which has continued to show high demand. Key benefits of this type of program are that it is piloted elsewhere, the tax base increases, and it improves the talent pool. They created a financial model to consider the return on investment; Conover concluded the program has the opportunity to return 10 times the investment if the value of participant spending is taken into account.

Brian Raney, CEO of Awesome Inc. and APAX Software, said they are excited about the growth potential and scalability of the program, pointing out how it could make Lexington a top regional employer. Using their model he outlined revenue and local spending. They are asking for LFUCG to fund the first two years of the pilot program, then the program would switch to trailing revenue for financing. They have identified possible public-private partnerships, including philanthropic support from individual donors (by way of a match), and believe Kentucky's Cabinet for Economic Development to be a potential sustainability partner. Raney concluded the presentation by talking about University of Kentucky graduates who often leave Kentucky after school and the potential for this program to bring high quality and high wage earners back to Lexington.

Plomin and Conover discussed recruitment; if the demand is high enough, marketing is not as critical. A nice website and thought-out application process is essential, plus a volunteer selection committee who select folks they think are the best fit for Lexington. The program could also target past Kentucky residents, in particular people who were part of the Governor's Scholar Program, as a goal. Awesome, Inc. will give participants free co-working space, plus they will provide programming to help foster community, including volunteering opportunities.

Lamb and Conover talked about the relocation program in Paducah, which was recently launched and offers participants $3,500 to relocate versus other programs that offer an average of $10,000. Lamb confirmed other cities have approached Kentucky Remote with interest in creating a program in their community. The initial cost of $3.4M covers the participant cost ($17,000 per person), $10,000 is for relocation, and $7,000 is for operations and overhead. They anticipate the cost per participant to decrease as participation grows.

Kloiber asked about the "trailing grant", which Raney explained would start in year three, as a percentage of direct revenue generated through payroll taxes. They believe other resources would come into play once the program was proven for 2 years. L. Brown said there is a larger economic benefit to the state and the pilot will create an opportunity for the state to consider. Kloiber emphasized the self-sustaining aspect of the proposal.

Ellinger and L. Brown discussed the state's interest in this type of program; a related bill was vetoed by the governor in the last session because there wasn't enough supporting data but those conversations are continuing. Ellinger said some companies are adjusting salaries for workers that relocate based on the cost of living. He and Conover talked about how people will be selected, with verification of a fully remote job, a long application process, and a selection committee that would make the final determination. Workers would have a contract and relocation payments would be paid out over 12 months. L. Brown said this area doesn't have a lot of tech-workers, engineers, and product managers, which he learned through his medical businesses.

McCurn asked if sole proprietors in other programs expanded their businesses after relocating. Conover explained how the Tulsa program has a somewhat separate application for entrepreneurs. Awesome Inc., who will operate this program, also has a strong entrepreneurial support network. McCurn asked about participants recruiting other folks from their company to also relocate but Conover said the focus would remain first on the individual talent. It was confirmed that after the initial pilot launch, the financial commitment would be newly generated taxes. L. Brown said the criteria can help filter people but the main goal is to find people who are interesting in being in Lexington.

Kay and Conover discussed public-private partnerships; of the programs researched about half of them were funded philanthropically and half were public-private partnerships. They discussed the criteria for selection, for example, potential earning power, which would include a weighting system for various application components; plus the selection committee made up of diverse community leaders. Kay said the city is committed to increasing opportunities for a diverse population, which would include recruitment and the program would present difficulties with a fairly homogeneous participant group. They discussed the third year of the program outlined for 300 new enrollees, the ongoing cost for LFUCG would be a payroll tax exemption for participants but no new investment from the city. If Lexington created a program, it wouldn't prevent other cities from creating a program, Kay is concerned about the cost of the recruitment when there is less of a competitive advantage. L. Brown doesn't compare this to the recruitment of companies, explaining the proposal lays out a long-term revenue stream. He said there are plenty of people ready to participate in relocation programs; Tulsa has seen about 40,000 applications and only accepted about 2,000.

J. Brown mentioned the importance of minority recruitment. He questioned whether this trend will remain after the pandemic, which Conover said the research suggests twice as many people will be working remotely in 2025, compared to remote workers before the pandemic. However, she said right now is when people are moving. J. Brown would like the city's MBE goals and targets to apply to this program and set the stage for minority recruitment if it is funded. Wes Holbrook, Director of Revenue, said they have seen more businesses register because they have a remote worker in Lexington but it a trend can't be determined at this time. L. Brown said top priorities for folks who are relocating are a higher quality of life and lower cost of living, which he believes Lexington has an advantage in.

Because multiple companies are providing these programs, Moloney said the city will have to do an RFP for this project. He compared this to the successful small business program with Commerce Lexington and Tyrone Tyra to help businesses in Lexington during the pandemic and questioned if the impact of the requested funds would be greater if placed with them. His priorities align with doubling the size of small businesses and taking care of people at home first. He doesn't think Lexington has a problem with people wanting to work here. Raney doesn't see these as competing programs; Kentucky Remote will benefit small businesses by bringing talent to the city. L. Brown emphasized the return on investment is estimated at 19 to one for the city and state combined, which he said is hard to beat.

Lamb talked about the Economic Development Investment Board and the overall request of $2M for 200 people plus $1.4 for a local company. She would like to hear what the EDIB has to say about what partnerships or opportunities can come through that. She talked about the responsibility of LFUCG when ideas and programs move forward. Kloiber commended the presenters who are thinking about these kinds of opportunities, particularly ones that are data-driven. No action was taken on this item.

IV. Use of Additional FY21 Economic Development Funding ($300,000)

a. Talent Development Project

Kevin Atkins, Chief Development Officer, explained how the additional economic development funds budgeted in FY2021 are proposed for two projects. The talent pipeline project is proposed for $250,000 and the regional collaboration effort for $50,000. Betsy Dexter, Executive Director of the Business Education Network for Commerce Lexington, said the *Accelerate Lexington* program is an initiative to increase the talent pipeline for high-demand careers in industries that are drivers in our region. The program will focus on one sector at a time, starting with healthcare. By starting conversations with local partners in the healthcare industry, they determined to focus on certified nursing assistants (CNA). She outlined the course description and how the certification program would work. The project is made possible through shared investment. The Bluegrass Community & Technical College will own the training component of the project with the support of a state grant. Healthcare providers will interview and select the participants, cover the cost of their training, pay participants $14/hour during the training, and give them a full-time job. Commerce Lexington will create a talent recruitment campaign and remove other financial barriers. Dexter emphasized there is a lot to learn and the importance of collecting data to create a framework in Phase 1 so that it can be plugged into other sectors in Phase 2.

b. Regional Economic Competitiveness Plan

Bob Quick, President of Commerce Lexington, talked about regional competitiveness and how the opportunity to improve regional alignment is critical to our future. He said everything they do has a focus on minority, women, and veteran businesses, which was proven with the recent small business grant program they administered. Quick spoke about Ted Abernathy, Economic Leadership, LLC, who was hired to guide this project. They have convened a steering committee of 40 individuals from a nine-county region to develop the action plan, which should be done by early 2022. The goal is to identify areas to improve regional collaboration to make the region more economically competitive for jobs and talent. *Opportunity Austin* is a model for this effort. Lexington's investment will help encourage other counties ' investment; they also have investment from the private sector already committed.

Lamb talked about employment issues in healthcare. Dexter said another position they considered was a certified medical assistant, which is a six-month certification program. Reynolds asked about the holistic approach to tackling workforce shortages across the board. Dexter said we are going to do this test; the question becomes how to strategically target and find people and emphasized the need to understand where the problems are. Bledsoe pointed out the amount of private sector investment in the program.

Moloney spoke about nurses and their work. He said the city is considering hero pay for LFUCG employees and said [nurses] are heroes too and eligible for ARPA funds. He thinks this [*Accelerate Lexington* program] is the way to get more nurses. Kay talked about the work of Bluegrass Tomorrow that has gone on for decades, in particular, he mentioned a project that explored regional development with the six contiguous counties. He spoke about regional development is more powerful than individual counties and that collaboration is not easy to do.

Plomin said Bluegrass Tomorrow has a 50-member committee that talks about all kinds of regional issues but economic development has not been as robust. She can help get their information to

Commerce Lexington. Bledsoe said these funds will be used as match money with other counties and the PSAs for both programs will be processed as new business items. No action was taken on this item.

V. Use of MAP Funds for Salaries

Elizabeth McGee, Budget Officer, Sr., first explained the Municipal Aid Fund (1136), which are funds that are governed by KRS and primarily used for street construction, paving, and road improvements in the urban area. Funds can be used for other related costs that are associated with construction and paving. In the early 2000s, LFUCG began using these funds for salaries and currently uses them to pay for salaries in the Divisions of Streets and Roads and Engineer, plus some debt service. The Law Department issued an opinion in 2017 stating personnel was an allowable expense. McGee outlined the MAP revenue for FY2015-FY2022. The expense of MAP funds was shared for the same time frame, broken down by debt service, personnel, and projects. It is their priority to use at least 50 percent of the funds for projects.

This committee item was referred from a council budget link committee during the FY2020 budget process. Ellinger said that despite being an allowable use, the intent of MAP funds is not for salaries. He said the city has become more dependent on these funds and would have to come up with the funds for salaries elsewhere. Moloney believes these funds are meant for black-topping. He has heard different legal opinions about the use of funds and believes staff should be paid for with general funds. He believes the MAP fund will get smaller, while salaries will increase over time.

Plomin and McGee clarified that there are two similar but separate road funds, MAP funds, and County Road funds, both of which are supported by the gas tax. Kay said the bottom line is how much money do we want to spend on MAP-related projects and where do we want to get the money currently used for salaries from. He described this as bookkeeping and said this could be discussed more during budget time.

F. Brown said we should be using that MAP money for streets and roads and paving. David Barberie, Managing Attorney, said the question posed in 2017 was can you use these funds for salaries, which they can. F. Brown talked about eliminating the use of MAP funds for the Division of Engineering's salaries in FY2023 ($775,000). Bledsoe said this conversation (rather than a motion or resolution) may be what the administration needs to consider when building next year's budget. Erin Hensley, Commissioner of Finance, said they can consider options to do that. F. Brown would like to keep this in committee. Moloney suggested these options be shared with the link that reviews this portion of the budget. No action was taken on this item.

VI. Budgeting Models and LFUCG Budgeting

a. Budget Amendments

Bledsoe reminded the committee this is to follow up on the discussions from the last meeting to outline what a revised budget amendment process for grants would look like. To provide an example, Hensley highlighted two budget amendments outlined for Work Session that same day that with this ordinance change would not require council approval to process them. The council would continue to approve grants that establish the budget, increase or decrease revenue, change the scope of the project, and closeouts that have a revenue change. Bledsoe said the draft ordinance in the packet would revise an ordinance from 1979 to allow for this process to happen. She suggested they could revisit this in six months to see how it's working.

Kay said it seems like this will take off a lot of routine items that don't need to be on the docket. Lamb talked about reviewing six to eight meetings to get a full picture of what this change would accomplish because sometimes it doesn't change as much as predicted. Hensley said they can look at that. Barberie explained how the working group from 2019 also considered items like donations and NDF budget amendments but they would need a different process. Both are fairly common but are also not typically a lot of money. Plomin mentioned the work done to change orders to modify what level of change requires council approval and it has not had a very big impact.

<u>Motion by J. Brown to support the draft ordinance [pertaining to the modification of what budget amendments require council approval]; seconded by Kay. The motion passed with an 8 – 1 vote (Lamb voted no).</u>

<u>Motion by Plomin to report this action out t Work Session today, September 28, 2021; seconded by Kay. The motion passed with an 8 – 1 vote (Lamb voted no).</u>

<u>The meeting adjourned at 2:49 p.m.</u>

Materials for the meeting:
https://lexington.legistar.com/MeetingDetail.aspx?ID=895755&GUID=D4B43171-BF07-4892-958C-845E2BA4EF1D&Options=info|&Search

Video recording of the meeting: http://lfucg.granicus.com/player/clip/5441?view_id=4&redirect=true

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