

Lexington-Fayette Urban County Government Council Meeting
State of the Merged Government Address
January 26, 2010

The Council of the Lexington-Fayette Urban County Government, Kentucky convened in regular session on January 26, 2010 at 11:30 a.m., in the Hyatt Regency Hotel, 401 W. High Street, Lexington, Kentucky. Present were Mayor Jim Newberry in the chair presiding, and the following members of the Council: Council Members Blues, Crosbie, Ellinger, Feigel, Gorton, Gray, Henson, James, Lane, Lawless, Martin, McChord, Myers, Stinnett, and Beard.

The Mayor gave his State of the Merged Government Address as follows:

*

*

*

I. Introduction

Slightly more than three years ago, many of us gathered for the Inaugural Ceremony for a new mayor and a new council. We were united with the spirit of a new beginning, and we were committed to getting Lexington moving again. Since that time, Lexington has become a better community.

During my Inaugural Address, I quoted Transylvania history professor John Wright. In 1982, Professor Wright authored a history of Lexington, and in his epilogue, he observed, "What we are and where we have been will determine where we are going and what we shall be. The early 19th century leaders in Lexington had some vision of what they wished their town to be, and did remarkably well in fulfilling that goal." Professor Wright then raised the question which challenges us: "Will Lexington in its third century produce leadership similarly cognizant of the total community in all its aspects: the human needs as well as physical growth; cultural creativity as well as economic expansion; and a shared sense of purpose in a burgeoning urban environment?"

Little did I realize at the time that Professor Wright's challenging question would provide such a useful framework for the work of my administration. Every day in the Mayor's Office is an exercise in trying to reach the right balance of resources committed to addressing our human needs, physical growth, cultural creativity and economic expansion. That balance can best be achieved when you listen closely to what is on the minds of Lexingtonians, which is why from the beginning of my term, we have scheduled numerous Mayor's Nights in and out of the office, council district tours with

council members, meetings with neighborhood association presidents and members, and countless visits throughout the community with groups of all kinds on a regular basis.

Today is my opportunity to make a report to my bosses – the taxpayers of Lexington – about how we have tried to balance conflicting needs. Once again, I want to rely heavily on Professor Wright's framework for my report to the citizens of Lexington. We will recount the progress we have made during 2009, focus on some of the challenges facing Lexington in 2010, and then talk briefly about what lies ahead of us after the Alltech FEI World Equestrian Games conclude and we shift our focus away from the Games. I am confident that great opportunities – unlimited opportunities – exist for us if we simply take the lessons we will learn in 2010 and use them to propel Lexington forward in the next quarter century.

Before I go further, please understand that the progress we have achieved is not mine alone. It has always been the result of the efforts of many people working together. Time will not permit me to give all the credit that is due to those involved with each initiative, but I am very grateful to the dedicated Urban County Government employees, the Council, the state and federal officials who have provided funding and other support, and most of all, the citizens who have been involved in and supported our many efforts. Without our having worked together, our list of accomplishments would be far shorter. To all who have participated, let me simply say "thanks for your help."

II. A Look Back

A. Where We Were

In keeping with Professor Wright's observation that "where we have been will determine where we are going", I reflected on the last three years. I cannot help but recall my first few days in the Government Center when I learned that the roof was leaking so badly that one office had a tarp strung from corner to corner with a funnel in the middle so a garden hose could drain the water. At the same time, LFUCG was unable to generate any financial statements so that we could plot our financial course. We did not have a comprehensive list of our boards and commissions, let alone an accurate and current list of their members, and while we had a list of our real estate, no one could say if it was complete, and we certainly did not know who was occupying our real estate or why. I could cite numerous other examples, but suffice it to say, in

January 2007, despite the efforts of many dedicated employees to keep the wheels on, Urban County Government was hardly a smooth running operation.

That little bit of “where we have been” does reflect something about where we have been going the last three years. Unfortunately, since 2007, we had to spend far too much time dealing with an accumulation of operating problems, but fortunately, with the steady and committed help of many folks, we have worked together to make enormous progress toward improving the operation of local government, despite the stormy financial waters in which we have been sailing.

B. Saving Tax Dollars through Effective and Efficient Government

For most people, few topics can be more boring than operating efficiencies at local government, so rather than me talking just about operating efficiencies, let me talk about how those operating efficiencies are saving your tax dollars and making things work faster and better for you!

We are saving your tax dollars by hiring significantly more internal auditors in order to eliminate waste. We have expanded the internal audit staff at LFUCG from 4 auditors on January 1, 2007 to 6 auditors today, and the seventh is expected to arrive March 1 so that we can conduct more audits internally at LFUCG and so that we can audit those statutorily-created outside agencies where our auditors are authorized to work.

We are saving your tax dollars by developing more effective volunteer board members. We have implemented training for the members of our boards and commissions so that they can perform their duties more effectively. We have also asked our major boards to rotate auditors on a regular basis so that fresh eyes will be evaluating the financial controls in place in those agencies.

We are saving your tax dollars through more effective oversight of our government facilities. We now have a real estate database which lists our 553 parcels of real property, tells us about upcoming maintenance issues, identifies tenants and provides other information necessary to manage our real estate portfolio for the citizens of Lexington – the property owners. Our real estate portfolio consists of about 88 acres of floor space under roof in buildings with a replacement value of just slightly less than \$500 million. Three years ago, we were forced to manage capital improvements in that portfolio on the basis of a list that essentially had street addresses. Now, with access to

reliable data, we have started prioritizing our facility improvements so that we can address the most pressing needs first. While we certainly need more resources to tackle all of our deferred maintenance issues, we are making substantial progress with the limited available funds.

We are saving your tax dollars by reducing our legal expenses. Three years ago, our city was confronted by a large number of significant and costly court cases. The number of pending non-collection matters has decreased by 32% from December 31, 2006 through December 31, 2009, and the number of matters being handled by outside counsel has decreased by 47% over the same time period. So in short, we have fewer lawsuits pending and more of those are being handled without the necessity of paying limited tax dollars to outside counsel.

We are saving your tax dollars by creating a more competitive purchasing environment. We have funded a position in our Purchasing Division to focus specifically on hiring more minority businesses as vendors. More vendors means more competition, and more competition means better prices for taxpayers.

We are saving your tax dollars by evaluating potential problems early and dealing with them promptly, such as the external review of the hostile work environment claims at the jail. Regardless of the outcome, the external review will enable us to more quickly and effectively assess and resolve those issues.

These commitments to saving your tax dollars through more efficient and effective operation of local government have enabled us to have more resources to get Lexington moving again, despite the difficulties created by the national economic problems. As a result of the savings achieved by these and other operating efficiencies, we have redirected LFUCG resources in a number of ways so that we can keep Lexington moving, regardless of the national economic challenges.

Using Professor Wright's four areas of civic life – economic expansion, physical growth, human needs and cultural creativity – I want to turn our attention to how Lexington is once again moving toward being one of America's preeminent cities.

C. Economic Expansion in a Recession

The development of our local economy has been a major focus throughout my administration and that did not change in 2009. Certainly, we have continued our traditional economic development efforts through a public-private partnership with

Commerce Lexington and the University of Kentucky – the Bluegrass Business Development Partnership. That partnership has received an international award, and it affords prospective businesses a one-stop shop for all of our community's economic development assistance. The award and the convenience are nice, but the real reward of the Partnership is jobs! Since January 2007, the Bluegrass Business Development Partnership has directly created 2,351 jobs. In other words, the partnership has created more than two jobs for every one of the 1,126 days of this administration, and the jobs were created during the worst economic times since the Great Depression.

Now, of course, we also have had job losses along the way, although as you can see from the chart, our unemployment rate has stayed substantially below the regional, state and national unemployment rates. In fact, our unemployment rates have been the lowest in the state during the course of this recession, and even though they are still far higher than anyone would wish, I am grateful that our rates are the best in the area. So every day the Bluegrass Business Development Partnership helps one of our citizens find a job with a future, we are making good progress for Lexington. The Partnership's efforts must be continued, and as they continue, our horse, health care and high tech sectors are the exact strengths upon which we need to build.

Although our thoroughbred industry continues to struggle with the national economic trends, our long-term emphasis on the broader horse industry will yield unparalleled results in 2010 when horse enthusiasts from around the world join us for the Alltech FEI World Equestrian Games. We have already seen two new national horse breed headquarters relocate to the Horse Park, and more are expected as we continue to enhance our reputation as the Horse Capital of the World.

Significant capital construction projects are planned or underway at Central Baptist, St. Joseph and UK - our acute care hospitals – and the design for a new facility for Eastern State Hospital is nearing completion. While the bricks and mortar and the construction jobs are important, the most exciting economic aspect of these projects – permanent high-paying employment for our citizens – is yet to come. Today, we are joined by Central Baptist CEO Bill Sisson, Eastern State's Administrator Shannon Ware, St. Joseph's President Ken Haynes, and UK's Executive Vice President for Health Affairs Dr. Michael Karpf. I would like for them to stand, Please join me in thanking all of

them for furthering Lexington's growing reputation as a national center for healthcare excellence and for providing hundreds of great jobs here in our city.

We have a broad array of high tech businesses – many of which are quite small – but all of which are making significant contributions to our economy. Last year, in conjunction with Commerce Lexington, UK President Lee Todd and I announced that in 2008, 68 high-tech businesses in our region received \$68 million in financing or buy-out funding while generating \$37 million in revenue. They employed 532 people, and the full-time jobs resulted in average annual salaries of \$65,000. The 2009 results will soon be released, and I am cautiously optimistic that we will see more reason for encouragement, even in a difficult economic environment.

However, we are our most competitive when we combine our health care expertise with our high tech research and development capacities, such as the announcement last year that Dr. Mark Evers would become the Director of the Markey Cancer Center. As part of his moving to Lexington, he brought his research team with him – plus approximately \$14 million in funding for cutting edge cancer research. If you have not yet met Dr. Evers, today is your chance. Dr. Evers joins us today, and I would like for him to stand so that we can welcome him and his research team to our community.

Dr. Evers' and his team's contribution to UK's research mission and national reputation is enormous, but there is reason for great optimism about UK's further contributions to Lexington's reputation as a research center. Last year, UK announced that during FY09, it generated \$337 million in research. Of that \$337 million, paychecks in the amount of \$139 million were added to Lexington's economy as a direct result of research at the University of Kentucky. In 2010, I am confident the faculty and staff at UK will top the FY09 results.

In 2009, UK continued to grow as an incubator of high tech ideas and know-how. Last October, UK's first entry in the U.S. Department of Energy's 2009 Solar Decathlon competition finished ninth in the overall competition and fifth in the energy efficiency competition. The 800-square-foot, net-zero energy house was designed and built by 175 students from the Colleges of Engineering, Design, Agriculture and Communications. A total of 20 leading universities from both the United States and Europe competed – most of which had participated in prior events. Today, Dr. Greg

Luhan, one of the faculty advisers to the project is here with us. Dr. Luhan, please stand so that we can congratulate you, your colleagues and the students who achieved great success in the competition. Your team's efforts have enhanced Lexington's reputation as a center for research on energy efficient design and construction – areas that are sure to grow in years to come!

Our high tech sector received another boost in April when Argonne National Laboratory announced that it will be locating its battery research lab at the Spindletop Research Park, and later in the year, Summit Biosciences announced its decision to locate at Coldstream. Summit develops and manufactures generic prescription drugs and new over-the-counter pharmaceutical products administered to patients by means of a nasal spray. Summit relies on technology developed at UK's College of Pharmacy. Last year, New Jersey businessman Edwin Cohen, the founder of Summit, spoke at the press conference announcing Summit's decision to locate in Lexington, and he had some interesting observations about Lexington's capacity for doing high-end research.

“Thank you all for coming today. It is really a pleasure for me to get the ball rolling again now. I have had a little over 10 years experience working with this community and every experience I have had has been a very positive one. I started out working with the University approximately 11 years ago using incubator space over there, eventually acquiring a lease on this facility, building it out and moving forward.”

“The partnership with the University has been extremely productive. We filed, together with the University, 5 or 6 patents, two of which have been issued to the University. We filed a number of FDA applications, experimental new drug applications. All of them have been accepted by the Food and Drug Administration. All of that work, both legal and scientific, was done down here in Lexington with the help of the University. The University is an enormous resource for us. The partnership going forward will assure the success of this operation.”

If you ever hear someone say that Lexington is not capable of being a high tech center, just suggest they consider Mr. Cohen's experience. His business success is directly tied to the success of the nationally acclaimed UK College of Pharmacy which just yesterday dedicated its new state-of-the-art facility on South Limestone Street. Mr. Cohen and Interim Dean Patrick McNamara of the UK College of Pharmacy join us

today. As they stand, please join me in thanking them for the public-private partnership they have formed to create jobs in our community.

Clearly, 2009 was a year where we focused extensively on our traditional economic development efforts. However, beyond the traditional economic development efforts, one of the best things we can do to develop Lexington's economy is to maintain our quality of life. That goal requires efforts on many local government fronts – keeping our city safe, maintaining our parks, filling potholes, creating a clean environment, building roads and sidewalks, and the list could go on. Urban County Government's core function is maintaining and enhancing the quality of life for its citizens, and that is exactly what I hear when I listen to our citizens, regardless of their location. We have made progress on many fronts toward enhancing our quality of life, but there are two areas where special mention should be made.

Downtown development has been a topic of discussion in Lexington for the entire 36 years that I lived here, but in the last three years, we have seen a remarkable renaissance downtown thanks to both investments by your local and state government and by private citizens and businesses. Those investments include: \$560 million at UK Medical Center, \$134 million at the UK Pharmacy building, \$78 million in the Showprop development on Angliana Avenue, \$16 million at the first phase of The Lex, \$16 million here at the Hyatt, \$13 million at the Hilton, \$17 million on South Limestone and \$6 million at the Lyric Theatre. I am sure there are others we could list, and if we started listing new nightspots, we would be here far too long, but clearly, these and other investments downtown have made it the hot development spot in our city. Our downtown's vibrancy will enable us to be an attractive location for young professionals – a key element in our long-term economic growth.

Connected to our downtown development efforts is the creation of the Higher Education Triangle. When Bluegrass Community and Technical College moves to the corner of Newtown Pike and Fourth Street – the current home of Eastern State Hospital – Lexington will have a Higher Ed Triangle comprised of Bluegrass, UK and Transylvania University on the corners. In the middle of that triangle is the downtown area – home to much of our financial and business expertise and, of course, many of our arts and cultural offerings. When fully implemented, the Higher Ed Triangle will bring our premier business, cultural and educational assets within walking distance, a bike

ride or a short trolley ride of each other. This remarkable configuration of assets, connected by pedestrian and bike friendly streets and sidewalks, will enable us to integrate the intellectual resources of the campuses with our talented business community and with downtown's arts and entertainment venues. When that occurs, new businesses will inevitably begin to germinate as the seeds of ideas from our campuses are sown in the fertile soil of our business community.

In the last year, we have taken three key steps toward making the Higher Ed Triangle a reality. First, the Council approved the funding proposal brought to us by Governor Beshear last April to facilitate Eastern State's relocation to Coldstream. Second, we began the redevelopment South Limestone Street – the primary connection between UK, downtown and the Transy campus. Third, we started the construction of the Newtown Pike Extension, and when that project is ultimately concluded, UK's campus and the Bluegrass Community and Technical College Newtown Pike's campus will be connected by a boulevard that facilitates vehicular, pedestrian and bike access. It has not been easy. Both South Limestone and the Newtown Pike Extension are projects that have been talked about for years, and I am incredibly proud of the fact that we are getting these projects done while at the same time we have brought the Higher Ed Triangle closer to reality.

As I hope you have seen during the last few minutes, our city's economic future is inextricably linked to the success or failure of our three institutions of higher education. With us today are the presidents of those institutions – Dr. Lee Todd, Dr. Charles Shearer and Dr. Augusta Julian. Please stand and be recognized. On behalf of a grateful community, let me say thanks for your support of our efforts and for all that you and your colleagues have done to make Lexington the special city that it is. More importantly, thanks for all that your institutions will continue to do to make our city stronger in the future.

The physical, economic and educational impact of the Higher Ed Triangle will profoundly affect Lexington throughout this century and beyond. Together in 2009 we have laid the foundation to enable our citizens to realize the maximum benefit from this remarkable transformation of our city – a transformation that is long overdue and one which will finally put us on par and perhaps even ahead of many of the cities we hold in

high esteem. We are no longer just talking about what we want our community to be – we are making it happen!

D. Physical Growth

While the economy certainly dominated everyone's attention during 2009, Urban County Government also paid great attention to our physical environment. We continued our efforts to implement the Consent Decree with the United States Environmental Protection Agency. Those efforts are of historic proportion. If you look at the chart, you will see that since 2005, LFUCG's inspection and maintenance of sanitary sewer lines has increased dramatically. At the same time we refurbished 4 miles of pipeline and constructed 14 miles of new pipeline. There were approximately \$60 million dollars of sanitary sewer projects under construction in 2009, and the pace is expected to grow in 2010 as we receive payments for the Water Quality Management Fee and begin to work on our storm sewer system.

You know and I know that for decades, we did not manage our storm water well, and that meant we were polluting our streams. When the Water Quality Management Fee was adopted by the Council last year, we set in motion a series of events which will ultimately create the funding necessary for us to properly construct and maintain our storm sewers. Thanks to the EPA's enforcement action, courageous votes by many council members and the cooperation of many, many citizens, we will now have the financial and human resources necessary to make sure our storm sewer system works better and in an environmentally friendly way.

As a part of the Consent Decree, the EPA also required us to implement a far more rigorous local enforcement effort so that we could require irresponsible citizens to follow local environmental laws. Those steps were taken by the council last June, so now, for the first time in Lexington's history, we can effectively enforce the rules we have adopted to protect our environment. That council action was a landmark event that received little media attention, but it will yield enormously positive results as we start taking the steps necessary to improve the quality of our water and air.

Our Department of Environmental Quality, created in 2007, has made huge improvements in the Division of Waste Management in 2009. First, in August we rolled back the garbage tax by 10%. We have been accumulating surpluses in that fund, and it was time to provide Lexington citizens with some relief on their property tax bills,

especially in an area of Urban County Government where we have the chance to generate some significant recycling revenue through improved management practices.

In May, we completed a study of our waste stream – the materials that individuals and businesses put in their garbage. That study confirmed what we all expected – we are paying to transport large quantities of recyclable materials to landfills and we are paying huge fees to bury those valuable recyclable materials in landfills. In fact, approximately 75% of the materials in our Herbies is recyclable!

Armed with this information, my administration requested that the Council authorize us to purchase equipment for our recycling facility that will enable us to nearly triple our recycling capacity by June of this year. We project that within one year, we will be able to take 80,000 pounds of recyclable materials out of the landfill stream each day, saving Lexington taxpayers approximately \$1.5 million annually in labor, transportation and landfill fees. In addition to those savings, we sold about \$1.4 million in recyclables last year. If we triple that amount, we will have about \$4 million in recyclable sales in a couple of years – an increase of roughly \$2.6 million in new revenue.

In short, we have enormous recycling potential. Our citizens believe in it and practice it. We will continue to look for ways to expand our recycling opportunities, such as the new recycling containers which we are installing downtown. We believe that our operating results will be such that we will soon need to further increase our recycling capacity beyond that which our current Thompson Road facility can accommodate. To prepare for that event, during 2009 we acquired property along Old Frankfort Pike for a new facility when operating results justify an expansion. The good news is that when we build it, we should be able to finance it strictly on the basis of the cash flow generated by that facility. After 3 years at Urban County Government, I can assure you that financing a building off positive cash flow is a novel approach!!

I am pleased to report that we are employing some state-of-the-art technology that will enable us to route our garbage trucks this summer in a vastly more efficient manner. Like all technology, the front-end cost is significant, but if other cities' experience is any guide, we will spend far less money to collect the same amount of garbage or we will spend the same amount and collect far more recyclables and garbage. Either way, Lexington taxpayers win!

Speaking of trash, our Code Enforcement officers have contributed in their own fashion to waste management by removing 40,000 signs from our rights of way over the last three years. Community Corrections worked with Waste Management to provide inmate crews that have cleaned 345 sites and collected 109,000 pounds of trash since 2007.

During 2009, we also obtained \$2.75 million in Recovery Act funding to make LFUCG buildings more energy efficient, and we have hired our first Energy Manager. We are preparing to solicit requests for proposals from energy service companies to provide assistance in accelerating our drive toward greater energy efficiencies. By reducing our greenhouse gas emissions, we will save significant amounts on our utility bills. Again Lexington taxpayers will win as we do the right thing for our environment in 2010.

Despite the economic challenges which confront us, 2009 has been a year for enormous progress on our environmental initiatives. I want our city to know that we have an extraordinarily talented group of individuals in our Department of Environmental Quality who are working hard to make Lexington a far more environmentally friendly city. Especially for an agency that did not exist this time three years ago, I am elated with their progress!

Throughout 2009, we have taken a variety of steps to improve our physical development that are beyond those steps in our Department of Environmental Quality. We completed an inventory of our downtown buildings in which each building's historic significance was evaluated, and that inventory has now been adopted by the Historic Preservation Commission.

Our Law Department, working in conjunction with the Fire Department and the Division of Building Inspection, helped to make landlords more fully aware of their obligations under both the fire code and the zoning code.

Our Department of Public Works and Development has utilized stimulus funding from the Recovery Act to provide financial support for the Newtown Pike Extension, for our proposed streetscape improvements, and for the building of the Legacy Trail from the Horse Park.

And speaking of trails, what a year! In 2009, we completed 4.5 miles in new trails in Lexington – approximately 33% of the total of 13.6 miles which have been built in

Lexington since 2000. We have an interesting history of trail construction. We started out with a bang – building 3.8 miles of trails in 2001, but from 2002 through 2006, we built only 1.1 miles. Since January 2007, we have constructed a total of 8.7 miles or 64% of all trails in Lexington. This year, we are slated to build 11 miles of trails for a total of 24.6 miles, so by the close of this year, Lexington will be home to one of the most appealing arrays of off-road trails in the country – 80% of which will have been built since January 2007.

Along the way in 2009, the state completed the new stadium and the indoor arena at the Horse Park, and the entrance to the airport has been upgraded so that our visitors will have a good impression of our airport as they enter the airport's facilities off Man O' War Boulevard.

In short, 2009 has been an incredible year for physical improvements throughout our city.

E. Human Needs

Professor Wright recognized our community's need to address our human needs while at the same time we build our economy and develop the physical aspects of our city. Especially in difficult economic times, our community must attend to the very real human needs which many of our fellow citizens are experiencing. In some instances, those who need our assistance are families that never thought they would find themselves in need of their community's help. We simply cannot let their needs go unaddressed.

In our recent expense reduction efforts, we reduced our General Fund spending by \$12.5 million, but we made no cuts to those partner agencies that provide food, clothing and shelter to those in need. We will continue to look for ways to reduce local government spending, but we will also continue to do all that we can to help the Hope Center, the Salvation Army and our other wonderful partner agencies to make sure that the least among us are helped to the fullest extent possible.

In addition, safety and security is a basic human need. Our Department of Public Safety does a superb job of keeping our city safe, and in the recent round of expense reductions, I am pleased that we were able to maintain current staffing levels by avoiding any layoffs of our public safety officers. We need more of them, and as revenues improve, adding public safety officers will be a high priority. In the meantime,

in 2009, we took the first steps in LFUCG history to reduce the unfunded liability in our police and fire pension fund when we sold \$70 million worth of bonds to start the process of funding the liability at a level where those pension payments will be secure.

There were a number of initiatives both inside LFUCG and in the community to improve the lives of those in need during 2009. Our Department of Social Services has used funding from the Recovery Act to move 50 homeless families into safe, affordable housing. That Department also used Recovery Act funding to expand the Summer Youth Employment Program from 184 low income youth at 83 businesses in 2007 to 291 participants at 101 businesses in 2009. Not only were we able to help develop the summer youth participants' job skills and help them explore possible career paths, but I can assure you that their summer program pay meant much to both the young people and their families in a time when jobs are hard to find.

This past year also marked a major transition at our Family Care Center— a wonderful facility that provides low income families with one-stop access to child care, education, health care and a variety of other social services. Beginning in 2007, our Department of Social Services started looking for ways to make the medical clinic at the Family Care Center work better, and last summer, those efforts culminated in an agreement by which the University of Kentucky's College of Medicine assumed responsibility for operating the medical clinic – a clinic long used by UK to train their medical residents. In addition, we took a much more business-like approach to both billing and collecting funds owed to the clinic from Medicaid and other payors. As a result, we have collected an additional \$168,000 from accounts that had historically been left uncollected, and at the same time UK is seeing a 30% increase in patient visits. UK is re-establishing dental services at the Family Care Center – a major improvement in the level of service provided at the Center. In FY07, LFUCG was required to subsidize the Family Care Center by covering an assortment of overhead costs. Now, after expanding services and increasing patient visits, we are anticipating that the payment from UK under its operating agreement will result in \$106,000 coming to the LFUCG General Fund in FY10 – a remarkable turnaround!

Finally, let me compliment the private sector for its efforts to address human needs in these tough times. There are many examples to which I could point, but let me share just two. As most of you know, the United Way of the Bluegrass is the umbrella

organization used to channel our community's resources to those in need. In 2009, the United Way brought Bill Farmer to Lexington as its new CEO. I am still working my way through the fact that he is a North Carolina fan, but despite that, Bill is an outstanding addition to Lexington's substantial network of social service agency leaders. Bill is here today representing both the United Way and LFUCG's many partner agencies who provide our community's social safety net. Bill, please stand. Please join me in thanking him and his colleagues at the United Way and other agencies for all that they do to address a multitude of human needs in our community.

Someone once said that the best welfare program is a job. I agree. Some members of our community have a particularly difficult time getting a job because of low skill levels, criminal records, a history of substance abuse, lack of interviewing skills, or other reasons. Jubilee Jobs of Lexington is a new nonprofit job placement agency which specializes in finding entry level jobs for the chronically unemployed and under-employed at no charge to either the applicants or the employers without monetary support from LFUCG. That is the sort of private sector initiative which complements our public sector efforts, and when the public and private sectors work together to address our citizens' problems, good things always happen in Lexington!

F. Arts & Cultural Creativity

I am excited about the progress occurring in our arts community. Funding for the arts is always a challenge, and it is particularly so in tough economic times. However, the last year has seen the arrival of Scott Terrell, the new music director at the Lexington Philharmonic, substantial investment in art at both St. Joseph Hospital and at the new UK Medical Center, national recognition of Lexington's Children's Theatre by the Chase Community Giving program, the re-establishment of a professional dance troupe at the Lexington Ballet, and the expansion of public art at Lextran shelters and the Transit Center.

Over the last five years, public support for our local artists has increased by 50% - from \$300,000 in FY05 to \$450,000 in FY10. In addition, total grant funding for local arts programs has increased from \$501,000 to \$803,000 in the same period – a 60% increase. I am pleased that we have been able to maintain that level of commitment despite the current challenging financial environment. And the future looks bright, too. LexArts established the Lexington Youth Arts Council with 24 young people from six

public and private high schools. In all probability, it will be these young people and their successors who will be the keepers of our arts in the years to come, and I commend LexArts from encouraging our young people to appreciate and support our artists and performers. Last but not least the short-term future is promising because after more than 20 years of effort, the reconstruction of the Lyric Theatre is underway, and this fall, the Lyric will reopen as Lexington's newest and one of its most historic arts venues.

So, if I had to summarize 2009 in one word, it would be, "Wow!" What a year it was. Despite the storms in the financial markets, we made remarkable progress on multiple fronts in our city. But now the long-awaited 2010 is upon us!

III. 2010 - The Most Remarkable Year in Lexington's History

Even though 2009 was an exceptionally productive time for our city, 2010 is likely to surpass it. So let's just get to the heart of it quickly – how about those #1 Cats? What a season! However, believe it or not, we've actually got a few things to do after the NCAA tournament concludes!

If considered in intricate detail, the challenges of 2010 can seem almost overwhelming, but let me offer some comfort for those of you who may be concerned about our city's ability to pull off all that lies ahead. As a result of the planning and progress which has occurred in prior years, I am confident that we are well-situated to make 2010 not only successful, but fun! Incredible work has already been done in preparation for 2010, and as a result, if we simply maintain our focus and finish the work that is already in progress, 2010 will be the most significant and successful year in Lexington's history. Permit me to suggest three broad categories of activities on which we should focus during the balance of this year.

A. The Alltech FEI World Equestrian Games

First, after years of planning, the Alltech FEI World Equestrian Games are almost here. I am confident that the Games will meet its goal of producing the world's preeminent equestrian event in a technically, artistically and financially successful way. The Games staff has been working hard to prepare for the arrival of teams from around the world, and they are on schedule to produce an event in which we can all be proud. I am particularly glad that a Lexington company, Everett McCorvey's Global Creative Connections, will be producing the opening ceremonies, and based upon what I have

heard, the opening will be well worth the price of admission. If you plan to attend and have not already done so, get your tickets!

However, the events at the Horse Park are not only an opportunity for us to showcase Lexington's longstanding ties to the horse industry, but they also provide reason for us to showcase the strength of our local arts and culture. Spotlight Lexington will be Lexington's downtown celebration. Its events will be free and fun, thanks to the help of many sponsors, including our presenting sponsor, St. Joseph Healthcare. Mark your calendars now so that you can plan to join us for Spotlight Lexington starting on the night of September 24 and continuing through October 10.

B. Projects, Projects, Projects

Second, 2010 will be a year when many infrastructure projects are completed and put to work. The list is long: a badly needed nature center at Raven Run, Newtown Pike Extension, South Limestone, the Lyric Theatre, terminal improvements at the airport, the completion of the airport's runway, a wireless broadband network for our public safety officers and others, Cheapside Park with the Fifth Third Pavilion, 11 miles of trails, streetscape improvements along Main and Vine Streets, new recycling equipment, and more sewers to comply with the Clean Water Act.

Just last week, we learned that Governor Beshear has proposed \$173 million in Fayette County road projects during FYs 10, 11 and 12. Now, we need to be cautious about that number because there is a much legislative work to be done before the General Assembly approves that plan, but I am grateful for the Governor's inclusion of those key projects in the road plan. If our local legislative delegation can keep those projects in place during the legislative session, 2010 will be a time when we make substantial progress toward addressing some of our most difficult and longstanding traffic problems.

C. The Great Recession

A discussion of 2010 would not be complete without some consideration of the national economic trends which have impacted us over the last 2 ½ years and especially in the last sixteen months.

As I have listened to people who have lost their jobs, to business owners struggling to survive and to ordinary people on the street, we have all been affected by the economic downturn – the worst in 80 years. LFUCG is no different. As many of you

know, 83% of our General Fund revenue is derived by tax revenue tied directly to the economy, such as the payroll tax and the net profits license fees. So, when our economy experiences a downturn, LFUCG sees a drop in tax receipts. Recently, we had to reduce our expenses for this fiscal year by about \$12.5 million, and on January 8, I proposed a series of expense reductions to enable us to have a balanced budget by June 30.

The expense cuts were painful. Good people and good programs were adversely affected. None of the cuts was easy. The citizens and businesses of Lexington, however, have had to do the same thing in their homes and offices, and they should expect no less of their local government leaders. Fortunately, we were able to make a proposal that requires no new taxes and no layoffs. Please know that members of my administration will continue to closely monitor receipts and expenditures so that we can end FY10 with a balanced budget while continuing to provide the local government services which are so essential to maintaining the quality of life for the citizens of Lexington.

And then, starting in July, there is FY11 and all of the financial challenges it may hold. What will our next budget provide? That is hard to predict. I have often wished that the Mayor's Office came equipped with a crystal ball that would enable mayors to see the financial future, especially when it comes to revenue forecasts. Until we find that crystal ball, we will have to make the most careful economic forecasts we can.

Our best estimates are that our unemployment rates will continue to decline from the levels reached last summer, and we expect that our employment rolls will be restored, but we expect that restoration will occur slowly. If those estimates of slow employment growth are accurate, FY11 will be challenging. As a result it will be important for us to keep our operating expenses under tight control. Even if we find a way to have a surplus in FY10 by continuing to manage in a fiscally responsible way, we must constrain our desire to incur operating expenses until we see clear evidence of payroll tax receipts trending upward.

In even the best of circumstances, constraining spending is not easy, and it is particularly challenging in a year when all Urban County Government officials are up for election. Undoubtedly, political opponents will attempt to seize upon every expenditure or cut for their political advantage, so this financial environment will require strong,

committed leadership to keep Lexington on the move in these difficult financial times. Rest assured our administration will provide that leadership in the future just as we have in the past. When we do, a year from now we will have a city that continues to provide government services well while managing our city's finances in a responsible way.

IV. A Look Beyond – Destination 2040

Both 2009 and 2010 will be viewed by historians as extraordinary years in Lexington's history. In fact, I can make a fairly compelling argument that 2010 will be the most significant year since Lexington was founded in 1775. In what other twelve month period have we had the world's attention in the fashion we will in 2010? In what other year have we had more improvements to our infrastructure? In what other year have we been required to deal with such significant national economic trends?

But whenever major events occur, there is always a risk that a community wakes up the day after those events end and wonders, "Now what? Where do we go from here?" Fortunately, our city has an answer for that dilemma. During 2008, our community went through the process of developing a common sense of direction and vision that will guide us over the next three decades. Destination 2040 involved approximately 3,000 Lexingtonians in an effort to chart a course for our community between now and the year 2040.

Destination 2040 makes clear that the key to Lexington's prosperity is balancing the competing demands to address our human needs, our arts and cultural needs, our economic development needs and our physical development needs. As Professor Wright helped us to understand, all four of those needs must be balanced by our community if we are to achieve our maximum potential.

In each of those four areas, Destination 2040 provides specific guidance as to the steps which we must take in order to keep Lexington on the move in the years to come. I am sure all of us can find some aspects of the report with which we do not agree, but it is in large measure a fair reflection of where the vast majority of our citizens think our city needs to go. We have already begun to implement some of the Destination 2040 goals, such as the creation of the Bluegrass Diamond concept. The Bluegrass Diamond is the geographic area comprised by Lexington and the surrounding counties. Destination 2040 encourages both Fayette County and its neighbors to think of itself as a singular unit. We are linked economically, culturally and geographically,

and by working together we will have more political and economic clout than any of us will have if we simply go it alone.

There are many steps to take in the coming months and years, but if we take those steps, Lexington and the Bluegrass will be one of the most exciting areas in the entire country. I hope you will catch that dream, and play an active role in making it a reality.

V. Conclusion

The state of our merged government and the state of the city is much improved. Remarkable progress has been made in the last twelve months, and 2010 is poised to be the most significant year in Lexington's history. Yes, we do have problems that we need to address, and yes, we can and will do better, but for today, please know that Lexington is moving steadily in the right direction.

When we began today, I quoted the question posed by Professor Wright: "Will Lexington in its third century produce leadership similarly cognizant of the total community in all its aspects: the human needs as well as physical growth; cultural creativity as well as economic expansion; and a shared sense of purpose in a burgeoning urban environment?" I am confident that Lexington has produced that kind of strong and committed leadership all across the community, and many of those leaders are here today. Please know that 2010 will test our community's leadership in ways it has never been tested before, but I am confident that together we will meet the challenges of 2010 and that historians will one day view 2010 as the year when Lexington took major strides toward becoming America's pre-eminent mid-sized city! It's an exciting time, and the best time, to be a Lexingtonian!

May God bless our city and its citizens as this historic year unfolds!

*

*

*

The Council adjourned at 1:20 p.m.

Clerk of the Urban County Council