**Ellinger**
Lane
Gorton
Kay
Farmer
Myers
Beard
Lawless
Blues

# AGENDA
# Budget & Finance Committee
# February 22, 2011
# 1:00 P.M.

| | | |
|---|---|---|
| 1. | **Monthly Budget Report** | (1-15) |
| 2. | **Finance Administration Transition Report** | (16-41) |
| 3. | **Mayor Gray Financial Advisory Group Update** | (42-44) |
| 4. | **Bond Series 2010F, G & H Sale Update** | (45-51) |
| 5. | **Items Referred to Committee** | (52) |

**"Budget & Finance Committee, to which shall be referred matters relating to the Department of Finance and Administration and its divisions, and any related partner agencies, the urban county courts and constitutional officers, fiscal operations of the government, revenues and expenditures of the government, and organization changers which affect the fiscal operations of the government. Additionally, this committee shall review the final audit report and management letter of the accounting firm recommended by the Mayor and selected by the Council to conduct the annual financial audit of the Urban County Government and shall report its findings concerning the same to the Mayor and Council for appropriate action."** Council Rules & Procedures, Section 2.102 (1) Effective January 1, 2011. Adopted by Urban County Council October 14, 2010

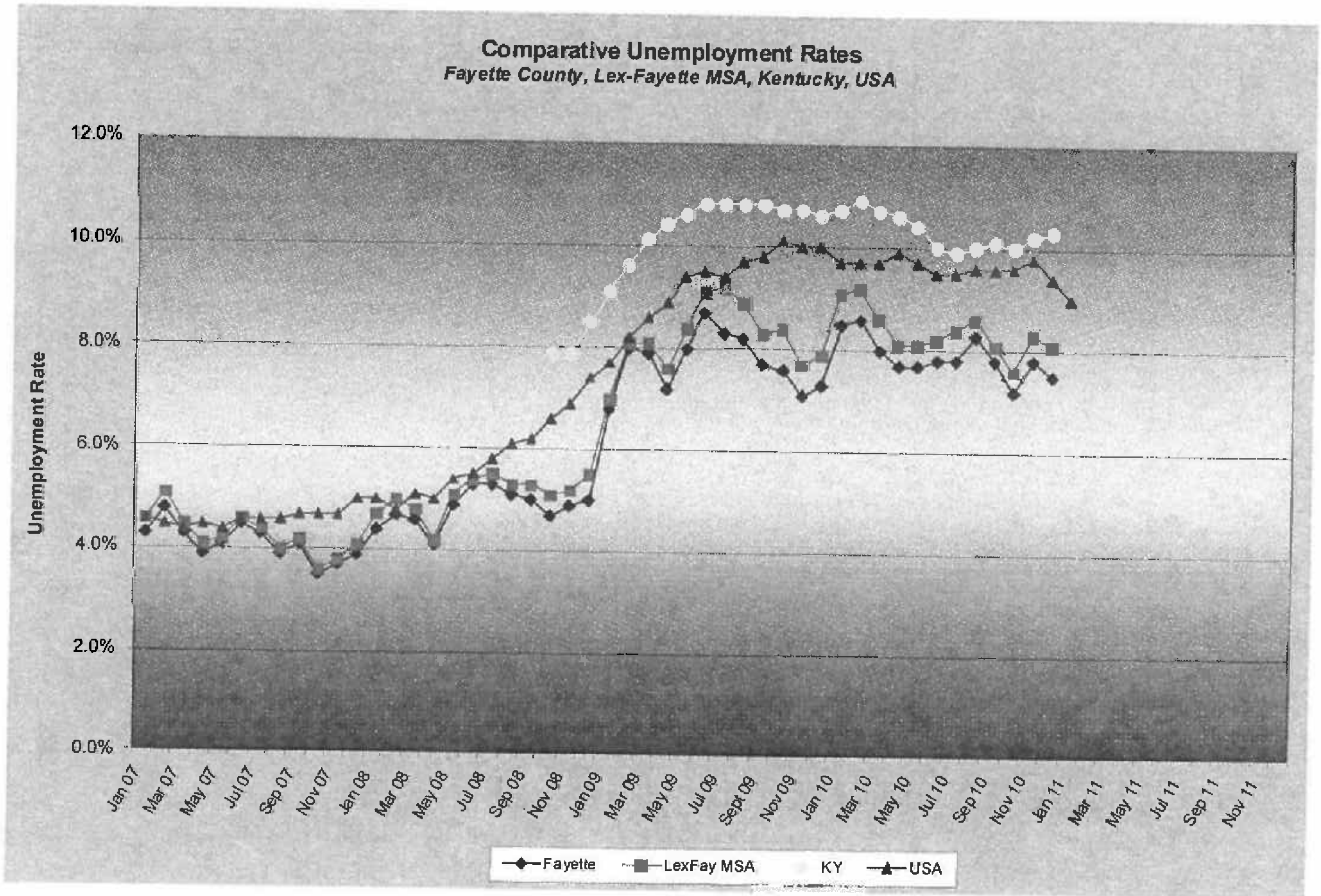
Committee Meeting Schedule

| | | | |
|---|---|---|---|
| March 22 | April 26 | May 24 | June 21 |
| August 30 | September 27 | October 25 | November 29 |

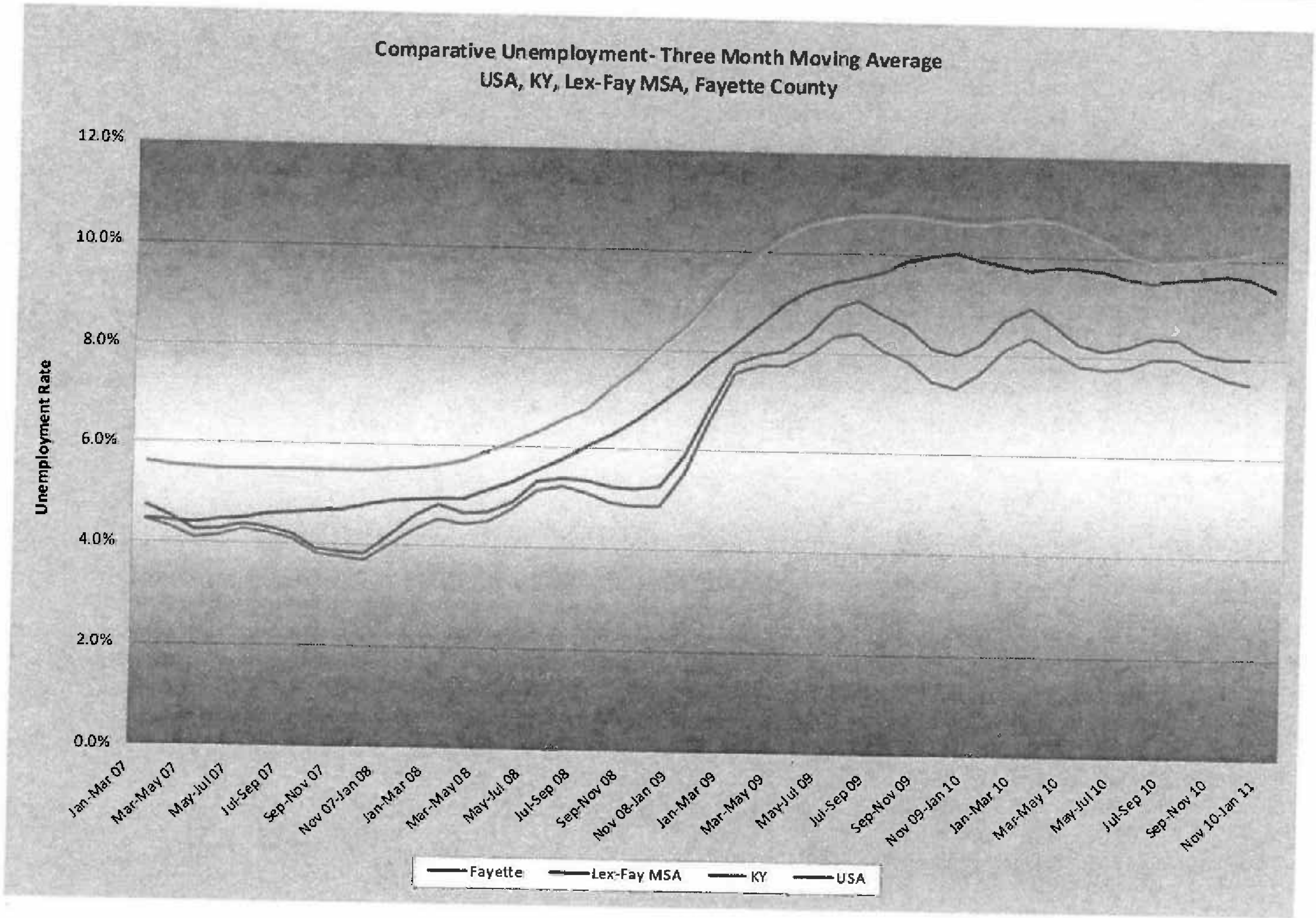
# Budget & Finance Committee

Financial Update
February 22, 2011

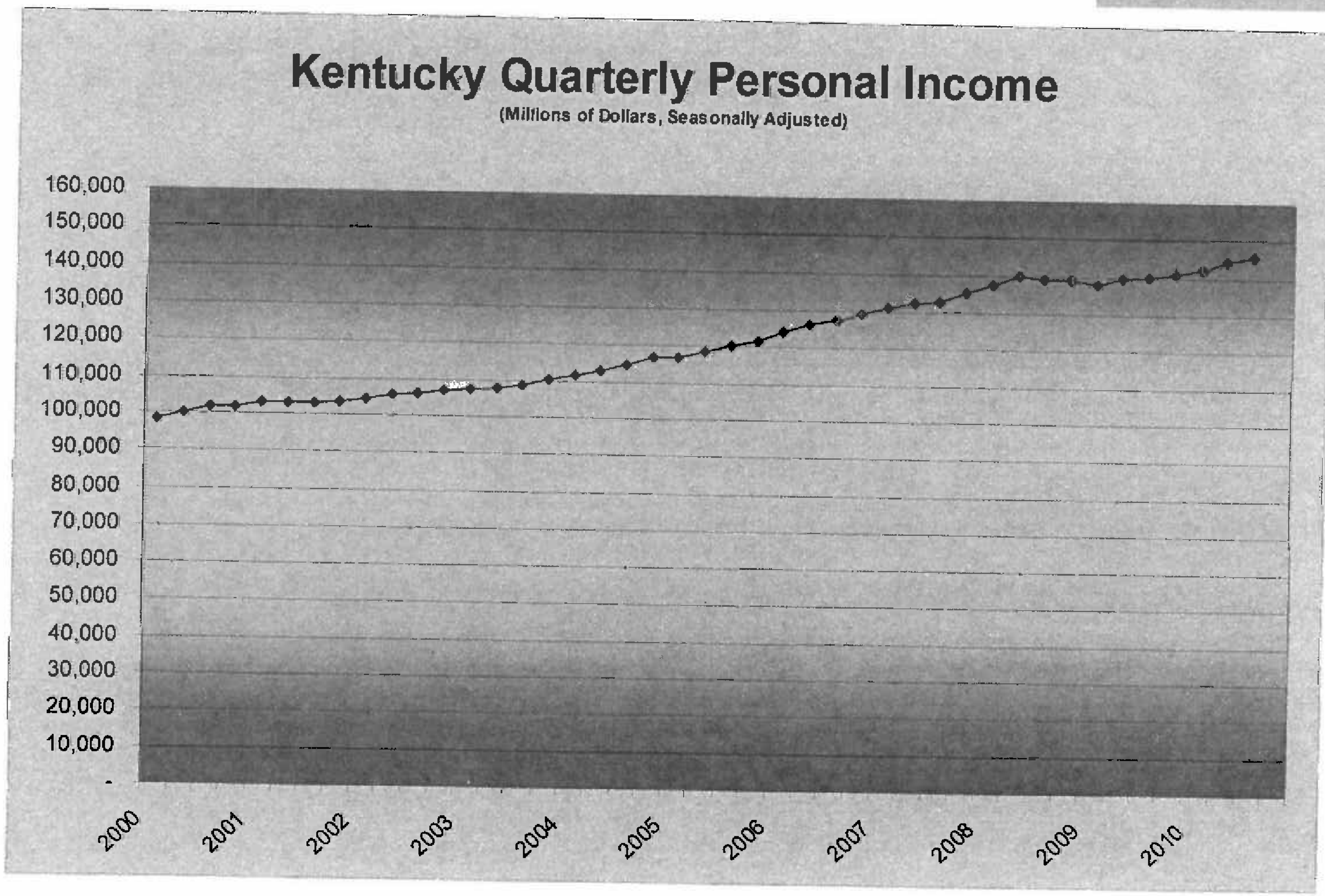
# Comparative Unemployment Rates



# Comparative Unemployment Rates Three Month Moving Average



# Kentucky Quarterly Personal Income



# Economic Indicators

## Economic Indicators

| | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
|---|---|---|---|---|---|---|---|---|
| Fayette County Unemployment Rate | 7.8% | 7.8% | 8.3% | 7.8% | 7.2% | 7.8% | 7.5% | N/A |
| Fayette County Employment | 142,196 | 141,013 | 140,722 | 141,820 | 141,617 | 140,903 | 141,969 | N/A |
| Fayette County Permits Issued | 1,407 | 1,193 | 1,434 | 1,427 | 923 | 1,015 | 707 | 793 |
| Fayette County New Business Licenses | 243 | 350 | 366 | 203 | 239 | 204 | 168 | 205 |
| Home Sales (MSA) | 871 | 585 | 539 | 465 | 442 | 438 | 521 | N/A |
| Fayette County Foreclosures | 50 | 51 | 94 | 52 | 44 | 44 | 39 | 59 |

N/A - Data Currently Unavailable

# January Actual/Adopted Budget

| Revenue Category | January 2011 Monthly Actual Compared to Adopted Budget | | | |
|---|---|---|---|---|
| | **Actual** | **Budget** | **Variance** | **%** |
| OLT- Employee Withholding | 6,912,140 | 6,028,455 | 883,685 | 14.7% |
| OLT - Net Profit | 1,241,201 | 1,157,747 | 83,454 | 7.2% |
| Insurance | 2,127,801 | 1,712,391 | 415,410 | 24.3% |
| Franchise Fees | 678,431 | 612,703 | 65,728 | 10.7% |
| **TOTALS** | 10,959,574 | 9,511,296 | 1,448,278 | 15.2% |

# January YTD Actual/Adopted YTD Budget

| Revenue Category | Actual | Budget | Variance | % |
|---|---|---|---|---|
| | January YTD Actual Compared to Adopted YTD Budget | | | |
| OLT- Employee Withholding | 82,296,626 | 79,693,562 | 2,603,064 | 3.3% |
| OLT - Net Profit | 10,412,631 | 11,967,510 | (1,554,879) | -13.0% |
| Insurance | 13,162,114 | 11,438,490 | 1,723,624 | 15.1% |
| Franchise Fees | 8,726,881 | 8,638,954 | 87,927 | 1.0% |
| **TOTALS** | 114,598,252 | 111,738,516 | 2,859,736 | 2.6% |

# January YTD Actual Less Amnesty/Adopted YTD Budget

Actual YTD Less Amnesty YTD Compared to Adopted Budget

| Revenue Category | Jan '11 YTD | Amnesty | Less Amnesty Jan '11 Actual | YTD '11 Budget | Variance | % |
|---|---|---|---|---|---|---|
| OLT- Employee Withholding * | 82,296,626 | (355,031) | 81,941,595 | 79,693,562 | 2,248,033 | 2.82% |
| OLT - Net Profit | 10,412,631 | (939,689) | 9,472,942 | 11,967,510 | (2,494,568) | -20.84% |
| Insurance | 13,162,114 | 0 | 13,162,114 | 11,438,490 | 1,723,624 | 15.07% |
| Franchise Fees | 8,726,881 | 0 | 8,726,881 | 8,638,954 | 87,927 | 1.02% |
| **TOTALS** | 114,598,252 | (1,294,720) | 113,303,532 | 111,738,516 | 1,565,016 | 1.40% |

# OLT – Withholding
## January 2010 – January 2011 (Excludes Amnesty)

| | 2010-2011 | 2009-2010 | % Change |
|---|---|---|---|
| January | 7,073,744 | 5,023,980 | 40.8% |
| February | 19,918,328 | 22,770,225 | -12.5% |
| March | 11,586,909 | 10,752,898 | 7.8% |
| April | 6,975,439 | 6,974,110 | 0.0% |
| May | 17,739,885 | 16,018,649 | 10.7% |
| June* | 11,598,043 | 12,993,693 | -10.7% |
| July* | 8,589,710 | 8,873,135 | -3.2% |
| August* | 16,710,431 | 15,880,402 | 5.2% |
| September | 11,485,648 | 11,486,593 | 0.0% |
| October** | 6,296,769 | 5,844,448 | 7.7% |
| November** | 19,647,806 | 20,059,570 | -2.1% |
| December | 12,299,351 | 11,249,413 | 9.3% |
| January | 6,912,140 | 7,073,744 | -2.3% |
| January - January | 156,834,203 | 155,000,859 | 1.2% |

| * Excludes Amnesty | |
|---|---|
| June | 21,489 |
| July | 226,445 |
| August | 128,586 |
| Total | 376,520 |

| **Adj for timing difference | |
|---|---|
| October | (1,733,590) |
| November | 1,733,590 |

| | | | |
|---|---|---|---|
| January - January | 157,210,723 | 155,000,859 | 1.4% |

# OLT – Net Profit
## January 2010– January 2011 (Excludes Amnesty)

| | 2010-2011 | 2009-2010 | % Change |
|---|---|---|---|
| January | 1,086,387 | 1,268,551 | -14.4% |
| February | 609,802 | 545,777 | 11.7% |
| March | 1,746,690 | 2,641,805 | -33.9% |
| April | 10,161,989 | 10,890,314 | -6.7% |
| May | 864,780 | 1,028,820 | -15.9% |
| June* | 2,526,472 | 2,373,275 | 6.5% |
| July* | 415,581 | 849,319 | -51.1% |
| August* | 425,957 | 402,641 | 5.8% |
| September | 3,524,846 | 3,718,942 | -5.2% |
| October | 931,629 | 995,445 | -6.4% |
| November | 663,806 | 544,651 | 21.9% |
| December | 2,270,021 | 3,769,253 | -39.8% |
| January | 1,241,201 | 1,086,387 | 14.3% |
| January-January | 26,469,161 | 30,115,180 | -12.1% |

*** Excludes Amnesty**

| | |
|---|---|
| June | 36,882 |
| July | 480,167 |
| August | 459,522 |
| Total | 976,571 |

# Financial Highlights January YTD 2011

## Financial Highlights
## January YTD 2011

| | Jan YTD Actual | Jan YTD Budget | Fav/(Unfav) Variance |
|---|---|---|---|
| Total Revenue | 149.981 | 143.804 | 6.177 |
| Personnel Expense* | 105.727 | 106.480 | 0.753 |
| Operating Expense | 20.006 | 20.231 | 0.225 |
| Debt Service | 10.826 | 11.160 | 0.334 |
| Partner Agencies | 10.262 | 9.909 | (0.353) |
| Insurance (GL&WC) | 0.000 | (0.052) | (0.052) |
| Capital | 0.068 | 0.090 | 0.022 |
| Total Expenditures | 146.889 | 147.818 | 0.929 |
| Property Sale | 0.099 | 0.000 | 0.099 |
| Transfers In/Out | (0.046) | 1.329 | 1.375 |
| Net Income | 3.145 | (2.685) | 5.830 |

***Includes actual health insurance cost***

# FY 2011 Projected – Revenue

## FY 2011 Projected - Revenue

| Revenue | Original Budget | Projected | Variance |
|---|---|---|---|
| Payroll Withholding | $149,240,000 | $151,500,000 | $2,260,000 |
| Net Profit | $28,448,000 | $25,400,000 | ($3,048,000) |
| Insurance | $20,500,000 | $23,000,000 | $2,500,000 |
| Franchise Fees | $17,600,000 | $17,600,000 | $0 |
| Other Licenses & Permits | $4,086,280 | $4,004,000 | ($82,280) |
| Ad Valorem | $20,244,000 | $20,444,000 | $200,000 |
| Services | $20,830,074 | $24,090,600 | $3,260,526 |
| Fines | $203,000 | $270,000 | $67,000 |
| Intergovernmental | $1,654,689 | $1,654,000 | ($689) |
| Investment Income | $27,000 | $67,200 | $40,200 |
| Other Financing Sources | $440,390 | $640,400 | $200,010 |
| Other Income | $2,237,976 | $2,376,800 | $138,824 |
| Total Revenue | $265,511,409 | $271,047,000 | $5,535,591 |

# FY 2011 Projected - Expenses

## FY 2011 Projected - Expenses

| | | | |
|---|---|---|---|
| **Expenses** | | | |
| Personnel * | ($188,730,890) | ($186,731,000) | $1,999,890 |
| Operating | ($35,962,512) | ($35,962,512) | $0 |
| Debt Service ** | ($34,438,984) | ($34,450,556) | ($11,572) |
| Partner Agencies | ($17,786,810) | ($17,930,100) | ($143,290) |
| Insurance | ($4,874,000) | ($4,874,000) | $0 |
| Operating Capital Expenditures | ($836,675) | ($836,675) | $0 |
| Total Expenses | ($282,629,871) | ($280,784,843) | $1,845,028 |

# FY 2011 Projected - Transfers

## FY 2011 Projected - Transfers

| | | | |
|---|---|---|---|
| **One-Time Revenue & Transfers** | | | |
| Property Sale | $4,236,300 | $236,300 | ($4,000,000) |
| Transfers | $2,278,501 | $2,278,501 | $0 |
| Total Expense | $6,514,801 | $2,514,801 | ($4,000,000) |
| **NET INCOME / (LOSS)** | **($10,603,661)** | **($7,223,042)** | **$3,380,619** |
| Economic Contingency Draw | $5,870,000 | $7,223,042 | $1,353,042 |

* Includes Healthcare Expense

** Assumes FY 2011 Pension Bonds

Assumes $4MM Less in Property Sales

# Revenue Update

- Questions ?

# MAYOR-ELECT JIM GRAY'S FINANCE & ADMINISTRATION TRANSITION TEAM "DRAFT" REPORT

This report provides an overview of the current mission statements, responsibilities, budgets and current and emerging issues of the Finance and Administration Department of the LFUCG

Transition Team

# Report Outline

**Topic:** **Page:**

## Foreword:

This report was prepared by Mayor-Elect Jim Gray's Finance and Administration Transition Team. The report summarizes the results of surveys that were sent to Division Directors of the Department of Finance as well as interviews with personnel of the Finance Department. It also includes information provided by the LFUCG Budget and Policy Division. The Budget and Policy Division was included in this report, although it is not a Division of the Finance Department, as that office is responsible for preparation and execution of the LFUCG's budget which is a critical component of the financial operations of the LFUCG. The Budget and Policy Division is also responsible for analyzing policy issues that have current and future implications for the overall financial condition of the LFUCG. The report is organized by sections including an overview section, a priority issues section, a pending litigation section, a section on improving Division operations and efficiencies and a section the other recommendations. The report also includes a set of recommendations provided by the Transition Team.

## Finance Department Overview by Division:

### Division of Accounting

*Division Mission Statement:*

None

*Division Responsibilities & Services:*

The Department's main responsibility is to operate and maintain all LFUCG accounting functions and make payments in the Accounts Payable System.

*Budget Summary:*

| | |
|---|---|
| Budgeted Positions | 16 |
| Vacant Positions | 1 |
| Annual Budget | $1,136,130 |

### Division of Audit

*Division Mission Statement:*

Consistent with the definition of Internal Auditing as stated by the Institute of Internal Auditors ("IIA"), the Office of Internal Audit is an independent, objective, assurance and consulting function designed to add value and improve LFUCG's operations. The Office of Internal Audit assists LFUCG in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

*Division Responsibilities & Services:*

The Office of Internal Audit shall assess and make recommendations for improving the LFUCG governance, risk management, and control processes by:

- Promoting appropriate ethics and values within the LFUCG
- Promoting effective organizational performance management and accountability
- Communicating risk and control information to the Internal Audit Board, senior management, and Council
- Evaluating risk exposures relating to the LFUCG's governance, operations, and information systems regarding the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, regulations, and contracts
- Evaluating the adequacy and effectiveness of controls in responding to risks within the LFUCG's governance, operations, and information systems regarding the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, regulations, and contracts
- Evaluating the potential for fraud and how the LFUCG manages fraud risk
  This scope of responsibility shall be addressed through the Office of Internal Audit's assurance and consulting services provided to the LFUCG.

*Budget and Department Personnel Summary:*

| | |
|---|---|
| Personnel Budget | 7 |
| Vacant Positions | 2 |
| Full-Year Budget | $715,443 |

The department has 7 positions, including the director. Two of the positions are unfilled at this time. The director we interviewed seemed unclear as to whether or not current budgetary pressure would allow those open positions to be filled. This could leave audits to be finished late or not done at all for certain areas of government.

**Budget and Policy (Department not a Division of Finance but included here due to major role related to Finance)**

*Department Mission Statement:*

To assist policymakers with decisions about provisions of services and capital assets and to promote the cost-effective operation of all LFUCG programs.

*Department Responsibilities & Services*:

The Division is responsible for establishing and maintaining a comprehensive budget system and providing information to assist the Mayor, Senior Advisor/Chief Administrative Officer, Council and the Citizens of Lexington-Fayette Urban County. The Division provides assistance to Government Divisions and various Partner Agencies in budget preparation, monitoring and implementation. Responsibilities include long-range forecasting; developing property tax rates; periodic reporting of budgeted versus actual revenues and expenditures; developing annual personnel cost budgets; reviewing and processing budget amendments.

*Budget Department Personnel Summary:*

Personnel Budget 6

Vacant Positions 0

Full-Year Budget $513,700

**Division of Community Development**

*Division Mission Statement*:

None

*Division Responsibilities & Services:*

The Division of Community Development (DCD) has responsibility for administration and regulatory oversight of all State, Federal and private grants to the Urban County Government. DCD works closely with other government divisions on the preparation and submission of grant applications for intergovernmental funding, approval of grant funded expenditures, submission of progress reports, preparation of sub recipient agreements and preparation and submission of all final reports for grant reimbursement.

DCD has exclusive responsibility for the preparation of the five year and annual Consolidated Plans for Submission to the U.S. Department of Housing and Urban Development.

*Division Budget Summary:*

At current staffing levels, the DCD is approximately 60% grant funded.

*Division Personnel Summary:*

The DCD has 14 full time employees. In addition the DCD has one vacant, funded Director position and one vacant, unfunded Sr. Administrative Specialist position. The DCD does not currently use contracted personnel.

**Division of Human Resources**

*Division Mission Statement:*

- To develop, provide, and maintain service to our employees in the areas of payroll and benefits administration, always striving to meet the needs as defined by our employees, who are our customers.

- To effectively and efficiently provide high quality service in administering the following programs for the Urban County Government – classification; compensation; training; employee relations; grievances; disciplinary actions, medical; surveillance; unemployment; and special projects. The ultimate goal is to create and maintain a healthy, safe and equitable work environment for all employees, through the administration of the above program areas.

- To provide effective and efficient employment services to meet the needs of Lexington-Fayette Urban County Government employees and citizens through recruitment and testing methods which provide the best qualified individuals for employment selections, to accomplish public service program goals and objectives.

*Department Responsibilities & Services:*

The Division of Human Resources has been subdivided into three departments: Talent Management, Total Compensation and Employee and Labor Relations. The Divisions responsibilities and services by department are outlined below:

Talent Management

- Manages the hiring and promotional processes of all LFUCG employees to include classified and unclassified civil service employees as well as temporary and seasonal employees. This includes the recruitment, screening, testing, and interview and selection procedures.
- Manages position control which includes authorized strength and head count.
- Manages position classification which includes abolishing and creating positions and creating or updating job specifications.

Total Compensation

- Administers the benefits programs for the LFUCG employees.
- Manages the entire payroll process for all LFUCG employees to include wage garnishments, taxes, supplemental pays, and step increases.
- Researches and develops compensation systems.
- Maintains the official employee personnel file.

Employee and Labor Relations

- Provides management and supervisory, general, computer and safety and wellness training.
- Coordinates and conducts New Employee Orientation.
- Provides policy specific training.
- Oversees and manages Occupational Medical Services, to include: biennial physicals, audiograms, fit-for-duty testing, Hepatitis B, and immunizations.
- Publishes a quarterly training announcement and a monthly wellness newsletter.
- Maintains employee medical records.
- Oversees and manages employee and labor relations, to include: grievances and disciplinary action appeals; policy research and development; labor negotiations and contract management; and workplace investigations.

*Division Budget Summary*

Division of Human Resources FY 2011 Budget Summary (Including Budget Amendments)

| | Amount |
|---|---|
| Personnel | $1,886,120 |
| Operating | 688,772 |
| Capital | 0 |
| | $2,574,892 |

*Division Personnel Summary:*

| | Positions | Vacancies |
|---|---|---|
| Director | 1 | 1* |
| Senior Managers | 3 | |
| Managers | 2 | 1 |
| Other | 19 | |
| | 25 | 2 |

**Division of Purchasing**

*Mission Statement:*

The primary goal of the Division of Central Purchasing is to procure goods and services for the City of Lexington while providing the "Best Value" for the citizens of our community.

*Responsibilities and Services:*

The primary responsibility of the division is to procure goods and services for other LFUCG divisions or departments and occasionally provide this service to "Quasi" LFUCG organizations such as the Lexington Parking Authority or the Fayette County Clerk's office. These responsibilities include but are not limited to the following:

- Preparation of request for bid, proposal and quote documents.
- Administration of bid, proposal and quote processes.
- Organization of selection committee meetings and coordinating the selection process.
- Assisting the requesting divisions or departments with contract negotiations.
- Assisting vendors with bid, proposal and quote submissions.
- Resolving problems relating to vendor performance and quality

- Monitoring and approving purchase orders while adhering to LFUCG purchasing guidelines and regulations.
- Acting as the liaison for minority and women owned businesses to increase their participation to at least 10% of LFUCG spend.
- Manage divisional level payment issues.

*Budget Summary*:

FY 2010 – 2011 Expenditures (as of 12/02/10)

| | |
|---|---|
| Personnel | $ 631,290 |
| Operational | $ 15,800 |
| Total Expends | $ 647,090 |

*Personnel Summary*:

The Division is led by Brian Marcum, a career LFUCG employee. Mr. Marcum began with the Division of Central Purchasing in 1985, and was promoted to Division Director in 2005. During this current fiscal year, a newly – created position of *Minority Business Enterprise Liaison* was filled. Also, the division is in the final stages of staffing its lone vacant position (*Staff Assistant, Senior*).

Budgeted Personnel (9 FTE )

| | |
|---|---|
| Current Vacancy # | 1 FTE * |

<u>Position Listing</u>

| | |
|---|---|
| Director | 1 FTE |
| Buyer, senior | 2 FTE |
| Buyer | 3 FTE |
| Admin Specialist | 1 FTE |
| Minority Enterprise Liaison | 1 FTE |
| Staff Assistant Senior | 1 FTE * |

**<u>Division of Revenue</u>**

*Mission Statement:*

- Provide courteous, accurate and efficient services for the benefit of LFUCG and its citizens,
- Process and deposit all revenues timely, and
- Administer the occupational license fee program in a fair and impartial manner.

*Responsibilities & Services:*

The Division of Revenue is responsible for the collection of income, revenue, and money due the Urban County Government. These revenues include:

- Occupational license fees on wages and net profits
- Landfill user fees
- Ambulance billings
- Insurance premiums tax
- Telecommunications Franchise Tax

*Budget Summary:*

Budgeted Personnel 39

Open Positions 3 (three full-time positions are not funded in FY 2011)

| | Total |
|---|---|
| General Fund | |
| Personnel | $2,015,220 |
| Operating | 580,480 |
| Total | $2,595,700 |
| Sewer | |
| Personnel | $ 143,170 |
| Operating | 1,079,423 |
| Total | $1,222,593 |
| Landfill | |
| Personnel | $56,260 |

| | |
|---|---|
| Operating | 364,556 |
| Total | $420,816 |

The adopted budget for bad debt expense in FY2011 is $15,000. A budget amendment is needed to increase budgeted bad debt expense to the original submitted $150,000.

**Division of Risk Management**

*Division Mission Statement*

The primary mission of the Division of Risk Management is to preserve the Lexington-Fayette Urban County Government's assets by the administration of a self-insurance program that identifies, measures, and treats property, liability, and personnel pure-risk exposures.

*Division Responsibilities & Services*

The Division of Risk Management as established in Ordinance 2-7 is to perform various Risk Management duties (Insurance Procurement, Safety & Loss Control, and Claims Administration) for the LFUCG Administration, Council, Employees, Boards and Commissions, Volunteers, etc. as named in the master contract. The master contract was prepared and approved by Council in 1987 outlining the expected services of Risk Management. Preparation needs to begin for insurance renewals or re-bids for Council approval before June 30, 2011. Payments to the State Special Fund need to be paid quarterly. OSHA 300 Logs Preparation and Posting for the LFUCG need to be in place by February 1, 2011.

The functions currently in the Division include safety and loss control and industrial hygiene. Over the last four years claims administration, workers' compensation, risk management, and contracting moved to Legal Services, Accounting, and General Services.

*Budget Summary*

| | |
|---|---|
| Personnel | $293,310 |
| Operating | 35,500 |
| Total | $328,810 |

*Division Personnel Summary*

| Position | Filled | Vacant | Total |
|---|---|---|---|

| | | | |
|---|---|---|---|
| PFT | 3 | 1 | 4 |
| PPT | 0 | 0 | 0 |
| Temp | 0 | 0 | 0 |

- *The Division had sixteen (16) employees on January 1, 2007*
- *The Director proposes a restoration of the Division with a personnel complement of eleven (11) employees. Ten of the eleven employees are existing and budgeted, and the Director indicates he can produce savings to fund the additional position.*

## Priority Issues

**Division of Accounting**

- The PeopleSoft system, reportedly, has no archive capability, no data warehouse capability, and no reporting tool. This results in substantial inefficiencies in the Division and severely limits the capability to provide financial information for use in decision making or to provide transparency. The accounting staff has to dump data from the production system into Microsoft Access and Excel in order to develop reports. Immediate

- The lack of a data warehouse and archiving means that the LFUCG financial system is filling with data. That could be an expensive problem if the data growth degrades the system and impacts system performance. The issue is or should be part of information technology planning efforts. Long-term

- A problem may exist in grant accounting regarding the allocation of expenses from the payroll system. Continuous

**Division of Audit:**

Special requests for audits can come from Administration, the Council, or LFUCG staff. Special requests are approved by the Audit Board. There are no current or pending special requests. Tier One audits proposed for 2011, but not yet approved by the Audit Board are:

- PeopleSoft Accounts Payable Financial Transaction Review
- PeopleSoft Payroll Financial Transaction Review
- LFUCG Inventory Control Processes
- Accounts Payable Internal Control Audit
- Prisoner Account Fund Audit
- PeopleSoft Security Processes

**Budget & Policy Department**

The foremost issue facing the LFUCG's financial picture is that competing fixed costs associated with payroll and debt service are crowding out other parts of the budget. This issue, when combined with limited income growth potential, estimated at 2% (primarily payroll withholding and business fees) produces a projected budget gap of roughly $15.6 million for the upcoming fiscal year (2011-12). Clearly, the budget continues to be under severe pressure. Debt service is consuming a steadily increasing fraction of recurring revenue. This has risen from 8.9% in 2005, to 13.0% in 2011, and is expected to rise to 15.7% by 2015. This means that any budget cuts must come from the remaining portion of the budget. For example, a 5.0% cut in 2015 really means a near 6.0% cut in 2015 of the remaining 84.3% of the budget.

A second factor placing Lexington under pressure is that "one time fixes' are used to patch the budget. In the current fiscal year $15.6 million of revenue comes from non-recurring sources.

These monies will not be available in subsequent years. The imbalance will be even worse in the following year. This structural imbalance must be addressed by the mayor and city council.

**Division of Community Development:**

- The Projects, Contracts and Grants module of the Division's software (People Soft) is viewed as a significant obstacle to department accuracy and efficiency. Computer services is working on issues, however, software is causing perpetual inaccuracies for accounting purposes and significant productivity losses by employees. This has been a problem since software was purchased 5 years ago and has had minimal improvement.

**Division of Human Resources**

- Department should eliminate or move the Summer Food service program to a more appropriate organizational unit such as Social Services or the Fayette County Schools. The program is difficult to administer and requires significant labor.

- Improve Communication: DCD is aware of funded positions have remaining unfilled in Social Services. An assessment would be appropriate to determine if keeping any grant-funded positions unfilled was a sound business decision.

- Hiring of Division Director - The former director, Mike Allen, died in 2010. Leslie Jarvis has served as Acting Director since March 2010. She also serves as Senior Manager – Employee & Labor Relations. The new director will need the requisite education, experience and skill set to manage a large HR function, such as LFUCG, which has approximately 3,000 employees and operates in civil service and collective bargaining environments.

  Timing: Immediate

- Collective Bargaining Agreements – The Division of Human Resources must negotiate collective bargaining agreements with the departments of Corrections, Fire and Police. The bargaining units and contract expiration dates are presented below:

| Bargaining Unit | Contract Expiration Date |
|---|---|
| Corrections, Officers and Sergeants | June 30, 2010 – negotiating |
| Corrections, Lieutenants and Captain | June 30, 2010 |
| Firefight, Lieutenants and Captains | March 31, 2011 |
| Fire Majors | June 30, 2011 |
| Police Officers and Sergeants | June 30, 2011 |
| Police Lieutenants and Captains | June 30, 2011 |

LFUCG is contractually obligated to begin negotiations with Police 90 days prior to the contract expiration and with Fire 75 days prior to the contract expiration.

Timing: Immediate

- Employee Benefits – The Request for Proposal (RFP) process for employee benefits must begin soon. The primary insurance benefits are medical, dental, pharmacy, vision and life. These contracts must be negotiated and in place in time for the October 2011 Open Enrollment. The projected $7.2 million budget shortfall for health insurance underscores the importance of these negotiations.

  Timing: Immediate

- Payroll Reporting Requirements - All payroll information reporting requirements, such as forms W-2 and 1099, must be completed by January 31, 2011.

  Timing: Immediate

- Fully Implement Enterprise Software – PeopleSoft is the Oracle enterprise software which has been implemented across LFUCG, including Human Resources. However, the employee discipline, grievance and performance evaluation modules have yet to be implemented by HR. Installation of these modules is necessary to achieve the maximum efficiency afforded by the software.

  Timing: Immediate

**Division of Purchasing:**

- Purchase Orders - Central Purchasing currently processes approximately 16,000 purchase orders (PO's) per year. There are approximately 400 LFUCG employees who have the authority to request a purchase order (they are known as "requestors"). Director Marcum estimated the cost to process a PO to be $90 - $100. The number of PO's processed per year has been reduced from 20,000 to the current level principally due to the implementation of procurement cards (procards)(See discussion below). Central Purchasing process most PO's within one day of receipt. The turnaround time for PO's is measured and monitored (for example, for the month of October the average turnaround time for a PO was 0.34 days).

- Procurement Cards - The procards are VISA-branded charge cards that have been issued to approximately 120 users. These cards can be used for smaller purchases (< $1,000) and have been restricted by user based on merchant categories. The cost of processing a procard purchase is estimated by Central Purchasing to be $20 - $50. A review process by the Division Directors/Managers has been established. There is a rebate program in place, the level of which is determined by the annual procard purchasing. Director Marcum recommends that additional recurring purchases (e.g. utilities) be paid using the procard process in order to generate additional rebates for LFUCG.

- Procurement Code - In 1982, the division formulated the *LFUCG Purchasing Regulations*, which incorporates much of what is contained in the Model Procurement Code for State and Local Governments. The Model Procurement Code is a set of "best practices" designed to promote transparency and competition in government procurement. The Director is of the opinion that the present *LFUCG Purchasing Regulations* are adequate to meet LFUCG needs, except for the area of procurement of professional services. This component of the code should be reviewed and revised.

- Contracts/Change Orders – The Director made a strong point of debunking what he believes is widely-held perception that LFUCG bidders purposely submit low bids in hopes of winning contracts, the value of which can later be increased by the way of change orders. It is his opinion that the vast majority of change orders are simply inaccurate estimates of the scope of the contract or project.

**Division of Revenue**

- Recurring expenses are projected to exceed recurring revenue on a going basis. This structural problem must be addressed immediately. Public Safety accounts for 55% of the total budget, and will grow by 2% to 4% a year for up to 10 years under the present contract. Personnel actions will likely be required because there is not enough time for other long-term fixes.

- Health care costs and public safety pensions are not affordable with the present revenue structure.

**Division of Risk Management**

- The separation of claims administration, contracting, safety, and risk management is not best practice. Types of accidents, costs, and accident frequency need to be coordinated with safety and training, and safety issues need to be communicated across the enterprise. Following reorganization, information and data has not been available for communications. Additionally, the Department of Law lacks expertise in workers' compensation or insurance, and lawyers tend to litigate workers' comp cases that should be settled. The employees and functions stripped from Risk Management and sent to the Department of Law, the Division of Accounting, and General Services should be restored. (immediate)

- The Department of Law reportedly has stopped using managed care as to tool to reduce workers' compensation costs for the LFUCG. Best practice in workers' comp is to establish managed care with prices below the medical fee schedule. (immediate)

- State law (KRS Chapter 342) required utilization review for claims above $3,000. The LFUCG may not be complying with the statute. If so, that will have to be corrected. (immediate)

- The LFUCG needs to maintain reserves in order to stay self-insured for workers' compensation. A review of the reserves should occur as soon as possible to see if they exceed what may be necessary. Reducing reserves to assist the LFUCG's General Fund would be very desirable if the amount is substantial. Doing do so could require the Kentucky General Assembly to "not withstand" a statute to exempt the LFUCG from full reserve requirements. (immediate)

## Pending Litigation

*Division of Accounting: None*

*Division of Audit: None*

*Budget and Policy: None*

*Division of Community Development: None*

*Division of Human Resources: None*

*Division of Purchasing:*

- Only pending litigation involving the division is *LFUCG vs. United Building Services* related to a contract not awarded to the plaintiff based on previous performance issues. We believe there will be no budgetary impact; the suit has been in process for approximately 2 years.

*Division of Revenue*

- Legal counsels for two taxpayers have contacted Revenue regarding the application of occupational license fee rules to Family Trusts and Real Estate Investment Trusts (REIT). Both have inferred their client is willing to litigate.

*Division of Risk Management*

Risk Management is not currently responsible for litigation claims payments. However, the following cases could have a significant impact on the LFUCG's Self-Insurance Fund:

- Keith Guy, et. al.--Ron Berry molestation claimants
- W. L. Wilson v. LFUCG--Logan Askew and Leslye Bowman for wrongful termination

## Current & Planned Special Projects

*Division of Accounting:*

- Inadequate knowledge transfer occurred during the development of the LFUCG's Peoplesoft software. Efforts are being made to improve the knowledge base.

- Internal transfers of funds and budget among divisions are only reconciled once a year. This limits the accuracy of performance reporting during the year. Plans are to implement a monthly "hard close" to rectify this and will require management support.

*Division of Audit:* None

*Budget and Policy*: None

*Division of Community Development*: None

*Division of Human Resources:*

- Job Specification Review - HR plans to review and revise, as needed, all LFUCG job specifications. It is believed that in some cases job descriptions are too broadly defined to permit HR to properly recruit for and define the compensation for a given position.

- Implementation of Kentucky Retirement Systems (KRS) Software – HR must work with the Division of Enterprise Solutions to implement the new Strategic Technology Advancements for the Retirement of Tomorrow (START) program. This is the web-based system which will replace the technology KRS has used for almost 30 years. The system will serve employees, retirees and their families and employers in the management and reporting of retiree benefits. This is scheduled to launch in April 2011.

- Employment Policy Review and Development – HR is currently reviewing and revising, when necessary, and in some cases developing employment policies for the areas of family leave, modified duty and drugs and alcohol.

*Division of Purchasing:*

- Software – The implementation of the Oracle PeopleSoft Enterprise software has been very positive for Central Purchasing. This system improves the purchase order workflow and allows for electronic approval of purchases by appropriate division directors/managers. According to the questionnaire completed by

Director Marcum, there are several additional modules of PeopleSoft to be implemented by Central Purchasing.

*Division of Revenue:* None

*Division of Risk Management:*

- Emergency Preparedness
- Pandemic Plans
- LFUCG Comprehensive Health & Safety Plan needs updating
- Business continuity planning
- Need for approval of the re-write of the Self-Insurance Policy as requested by the State Insurance Department
- File imaging-requires assistance from computer services
- Expansion of Risk Culture including performance measures for Divisions (assumes claims adjusting and risk management returns from Department of Law

## Suggestions and Recommendations for Improving Services or Improving Efficiency

*Division of Accounting:*

- The Division should consider reviewing the production and content of the Comprehensive Annual Financial Report (CAFR) of the Urban County Government to determine if all of the content is necessary. For example, could the LFUCG's financial information be presented in a less technical, more transparent format? The Division should consider printing fewer copies of the CAFR and instead post it electronically to the LFUCG website or on disks.

*Division of Audit:*

- The two open staff positions in the Division of Audit should be filled to insure that audits can be completed in a timely manner. The integrity and confidence of all areas of city government depend upon the public having confidence that financial transactions are ethical and legal.

- We recommend all of the priority audits be completed as outlined above, especially the PeopleSoft system and Lextran

*Budget and Policy:*

- Given the importance of the budget, good and constant communication between the Budget Office, the Mayor, and the City Council are essential.

Everyone must understand the impact of their decisions and proposals in a near real time basis on the Lexington budget and financial solvency. The Director pointed out the differences in roles of the Budget Office including the roles of policy vs. administrative. He emphasized the need for the Council and Administration to fully consider the long-term impact of the current budget structure and its imploding long-term debt load. In addition, the Director raised concerns over the extremes placed on day to day cash management, i.e. "cash on hand" is pushed to the limit. He seems to endorse the positive efforts by the current Finance Commissioner to manage this issue.

- Consideration should be given to the Budget Office's position on the organization chart and it should report to the Chief Administrative Officer (CAO). This reorganization should not prohibit / restrict Budget from its inner - workings with the Division of Revenue, or Div. of Accounting. However, Budget's most efficient role is in Administration & Council coordination on the long term, overall financial health of the government.

- The budget calendar should be moved forward as several outside agencies are waiting to learn the impact of the budget on their programs.

*Division of Human Resources*:

- Employee Benefits – It is recommended by HR that a Benefits Advisory Firm be engaged for period of 3 years to advise and assist LFUCG and HR in the review and modification of its employee benefits package. The goals of this process should be to maintain a quality array of benefits which permits LFUCG to be competitive in hiring and retaining the best possible employees, but also to achieve significant cost savings.

- Medical Insurance – Medical insurance is a significant expenditure for LFUCG. For FY 2011, the Medical Insurance Fund has a $34 million budget, and it has been recently announced that the LFUCG faces a $7.2 million shortfall for employee healthcare. The LFUCG offers three health care options but 90% of its employees have chosen the Platinum Plan which has zero deductibles. Such plans are unusual and the LFUCG should give serious consideration to eliminating or modifying this option as it strives to manage the cost of its medical insurance. Also, the LFUCG should consider granting employees who waive coverage something less than full employer pay for other purposes in order to further reduce costs.

- Collective Bargaining – The HR Division is responsible for negotiating the collective bargaining agreements with the departments of corrections, fire and police. The timing of these negotiations is presented earlier in this report. The acting director recommends HR employ a professional negotiator to assist in and lead these negotiations. The unions representing these sworn officers employ such professionals. It is believed that a contentious negotiation may adversely affect HR's future relationship with the bargaining unit in the absence of a third party lead negotiator.

- Division Reorganization – In recent years the HR Division was reorganized to include the creation of the Generalist position. A Generalist would align with an operational group or division and would be responsible for the entire HR function for that division or operational group. This reorganization proved to be unsuccessful. In some cases, the Generalist proved to be inadequately trained or knowledgeable in all areas of HR to perform the entire HR function for a particular operational group or division. While several Generalists remain in title only, the acting director discontinued this type of organization upon her assumption of director responsibilities. The Division has returned to a "Specialist" concept where HR employees specialize in certain areas of HR function.

- Compensation System - The LFUCG compensation system is very complex. Revision of this system has been attempted numerous times over the years. Nevertheless, the current system needs to be improved to become more market driven. It is believed that the current system places far too much emphasis on longevity. HR is currently conducting a review, with revision if necessary, of all job descriptions and specifications (see Special Projects section). This is a necessary first step in developing a compensation system which will fairly compensate LFUCG's employees and also allow LFUCG to successfully compete in the market place for qualified employees.

- Posting Positions -The requirement imposed by K.R.S.67A that LFUCG advertise all positions for 2 weeks in the *Lexington Herald-Leader* (the largest circulation newspaper) proves to be very expensive. It is estimated that HR will spend $70,000 for employment advertising with the *Lexington Herald-Leader* this fiscal year. For certain positions, trade journals and on line recruiting services (e.g. Monster.com) would be more successful and cost effective.

In order to further improve the recruitment process, HR must communicate better with the various divisions of LFUCG to properly specify the job skills required and to ensure the position is then appropriately advertised. Further, HR employees need to be better trained in analyzing applications and/or resumes to identify the top 5 candidates, who will be referred to the requesting division.

*Division of Purchasing:*

- Procurement of Professional Services-To improve the process for procuring professional services, Central Purchasing recommends revising *CAO Policy # 1 (issued 1996),* and to incorporate the revisions into existing Central Purchasing procurement policies. This recommendation will better provide the division with greater oversight in procuring all government goods and services. Furthermore, the division proposes to formulate a *Professional Services Procurement Manual,* in order to transparently disclose to LFUCG staff (and the general public) how to internally administer the updated professional services procurement procedures.

- *Contractual Changes & Administrative Review Process-* To offer more efficiency in monitoring of existing contracts (and / or requested revisions) the Division of Central Purchasing needs to be "officially" incorporated into the Administrative Review Process (aka "Blue Sheet" process). Ideally, all requested contractual changes should allow for Central Purchasing to review the request prior to proceeding through Administrative Review, and on to Council consideration.

- *Quality Control and Capital Project Management-* The division is experiencing an increased burden of providing quality control for government projects currently under bid. This role compromises the limited time and available resources of Central Purchasing staff. Furthermore, the level of technical expertise associated with capital projects undertaken by LFUCG is beyond the capacity of current staff. It is recommended LFUCG delegate these project management / quality control duties to a Capital Projects & Planning Team within government.

- Central Purchasing should focus on the role of financial management, and to ensure LFUCG is fairly and consistently administering its procurement policies.

*Division of Revenue*

- On-line payment of occupational license fees, insurance premium taxes, and other recurring payments.

- Purchase and implementation of an occupational license fee software application (receivable system). The present 1980's system is out of date and requires a great deal of manual work.

- Organize a User Advisory Group made up of members of the public who pay profit and payroll taxes to advise on ways to improve efficiency for both taxpayers and the Division of Revenue.

- On-line filing of occupational license fees.

*Division of Risk Management*

- A need exists to review the Self-Insurance Property deductible and have divisions pay up to $2,000 to $3,000 per claim to help reduce nuisance claim handling by single in-house property adjuster. This would free the adjuster to administer claims now being handled by contractors and would reduce administrative costs. A very small claim from the Division or Department, for example, has to go to the in-house adjuster who has to approve it and submit it to the Division of accounts to debit and credit the appropriate accounts. The Division or Department should simply replace the small broken item or choose not to replace it.

- The LFUCG has changed Third Party Administration contractors several times. Best practice is to take "tail files" (all current cases at the time) and transfer them to the new TPA. The LFUCG has not done that and now is working with four separate contractors. That makes managing the contractors and keeping track of funds very challenging. If affordable it would be desirable to put all files in one place under one contractor.

- The LFUCG should consider a formal "return-to-work" program to bring injured employees back to work using modified duty. Returning an employee to work can reduce workers' compensation costs and would benefit injured employees.

- A review of procurement practices for the purchase of insurance, re-insurance, and third party administration would be desirable. An evaluation would be desirable to determine if any existing contracts should be re-bid. Brokers should only be used when a particular market is closed and cannot be bid competitively. Specifications are critical to a successful procurement.

- Periodic auditing of insurance and third party administration contracts also would be desirable. Such auditing might include reconciling individual claims costs to bank statements, assuring that subcontractor mark-ups are not occurring, verifying that brokers are not receiving payments for placing contracts, etc. A reputable TPA should be able to show an auditor how its system works easily. Disorganization and mistakes could be a sign of irregularities.

## Other Comments and Observations:

*Division of Audit:*

- A comprehensive audit of PeopleSoft should be conducted if funding can be made available. Requires use of outside auditors with IT expertise as this is a very specialized review.

- For legal reasons, Internal Audit cannot require the Airport or Lextran to respond to audit comments. As a result, these organizations are never scheduled for reviewed by Internal Audit. It is recommended that Lextran be audited by Internal Audit or by the state auditor in 2011.

- Internal Audit has two open positions. They need direction on whether to fill them or keep them open for a potential budget task.

- The HR process for hiring highly skilled professionals is slow and cumbersome, making it difficult to compete for top candidates with outside firms that pay 10% to 20% more than the Urban County Government.

- Internal Audit should be allowed to charge for audits of outside agencies. The fee language requires a revision to existing Purchase Service Agreements.

- The Audit Board has completed a draft of bylaws that respond to the comments by the State Auditor of Public Accounts in their audit regarding potential fraud in the LFUCG procurement practices.

- A Tip Line is recommended (one of the State Auditor's comments) with governance delegated to the Audit Board. This should be approved by an ordinance that establishes funding. It also requires a cooperative effort by the Council and the Administration to make workable.

*Division of Revenue*

- Consider implementing payments in lieu of taxes on tax exempt property.

- Improve Divisions ability to track and collect current unpaid taxes.

- Add staff with analytical capability to do long-term forecasting of revenue (five years).

## Transition Team Recommendations

1. The LFUCG should develop and maintain a long-term financial outlook or forecast to identify existing and potential structural budget and financial problems
2. The LFUCG should work with other cities in the state to encourage the Kentucky Legislature to provide additional financial options for cities and local governments
3. The employees and functions removed from the Division of Risk Management and relocated to the Department of Law, the Division of Accounting, and General Services should be returned to the Division of Risk Management
4. The LFUCG should undertake a review of the reserves required in workers compensation law KRS Chapter 342. If the reserves exceed prudent levels, the LFUCG should work with the Kentucky General Assembly to exempt the LFUCG from the full reserve requirements currently required in statute.
5. The LFUCG should review current LFUCG COLA policy for Hazardous Duty retirees to assure alignment of COLAs to the CPI or less if the financial condition of the LFUCG so dictates
6. The LFUCG should review current policies which have produced excessive retirement plan disability rates (42% for PFRF vs. 8% for CERS)
7. The LFUCG should consider adopting the recommendations of the *2008 Police and Fire Pension Fund Task Force Supplemental Report* to begin to deal with the unfunded liability of the Police and Fire Retirement Fund (PFRF)
8. The LFUCG should make adjustments to the current LFUCG health insurance policies to insure comparability to benchmark employee groups and that its policies are sustainable given the LFUCG's current and future financial capacity
9. The LFUCG should take steps to insure that salary and benefit adjustments are equitable across all LFUCG employees
10. The Division of Community Development of the Department of Finance should be organizationally relocated to report to the CAO and renamed the Division of Grants and Special Projects (to clarify its role and responsibilities)
11. The Division of Budget and Policy should report to the CAO and be given a greater policy analysis and financial outlook assessment role

12. The LFUCG should establish a Charter Review Commission to assess the relevance and appropriateness of the current Charter given the changes that have occurred in the responsibilities, intergovernmental relationships and changing economic and demographic realities that have occurred since the current Charter was adopted in the early 1970s
13. The LFUCG should take action to insure that all authority agreements allow Internal Audit has authority to review authority transactions
14. The LFUCG should consider acquiring the services of a special negotiator to assist in negotiations regarding pensions and other employee benefits

## Report Summary

This report prepared by the Finance and Administration Transition Team provides a summary of information gathered from surveys of Division Directors, interviews with Division personnel and observations and recommendations of the Transition Team. The Team's goal was to provide insights regarding the current operations of the various Divisions of the Department of Finance (as well as the Budget and Policy Division) as well as the issues that the LFUCG Department of Finance is facing in the short term and longer run as well as their implications for the financial sustainability of the LFUCG. Like other cities and local governments, the LFUCG has been seriously impacted by the economic downturn of the past few years. Revenue growth has been constrained while the costs of health care services and other required expenditures such as pensions as well as general public services have continued to grow. The combined impact of constrained revenue and expenditure pressure will require strong efforts by the LFUCG to manage these challenges. The Finance and Administration Transition Team hopes that the information provided by the this report including both the identification of challenging issues and the Teams recommendations can assist the LFUCG meet these challenges.

## City News

### Gray announces formation of finance advisory group

**Posted Date:** 1/31/2011 11:15 AM

Mayor Jim Gray today announced the formation of a finance advisory group to help the city address short-term budgetary challenges, and begin meaningful long-term financial planning. **WATCH THE EVENT**

"This group includes people who have been among the top leaders of our state in public sector budgeting and finance," Gray said. "The city faces significant financial challenges, both now and in the future. This work group will help us find a way to meet them."

Gray said it is essential for the city to find a way to both cut expenses and invest in its quality-of-life infrastructure. "Like any good business, we must always focus on reducing our costs. But to succeed we must also grow our economy so we can make investments to improve our quality of life," the Mayor said.

**Group members are:**

In his career with the state, **John Cubine** advised governors and legislators on budgeting and served in the state auditor's office and attorney general's office. He directed xxxx the Legislative Office of Budget Review and is the former Budget Director of what was then the Kentucky Cabinet for Human Resources.

**Bill Farmer** is President of the United Way of the Bluegrass. In addition, since 2008, Farmer has served as President and CEO of The Farmer Group, a consulting firm assisting business and nonprofit organizations in issues associated with public and social policy, including coalition building, strategic planning, social and public policy efforts and fund development planning. He previously served as Vice President of Corporate Development for Time Warner Cable's

Corporate, Regional and Media Sales Operations in the Carolinas.

x
x

**Mary Fister** is the former Director of the Division of Accounting for the city, and currently Director of Fiscal Effectiveness at Eastern Kentucky University.

**Chris Frost** is an attorney and member of the faculty of the UK Law School. Frost headed the transition for the Gray administration.

x
x

**Merl Hackbart** is a University of Kentucky faculty member in the Gatton College of Business and Economics. Hackbart has advised governors, mayors and legislators on public finance and economic forecasting. He is a former Director of the Kentucky State Budget Office.

**David Stevens** is a former member of the Urban County Council. Dr. Stevens was a member of the Charter Commission, which wrote the Charter setting up the Lexington-Fayette Urban County Government. In his 16 years on Council, Dr. Stevens chaired and served as a member of the Budget and Finance Committee.

x

In addition, newly appointed Commissioner of Finance and Administration **Jane Driskell,** who comes to Lexington city hall from Louisville city hall, where for 12 years she served in a variety of finance and budgeting positions, and **Geoff Reed,** the mayor's senior adviser for policy and government relations, will be part of the group. Reed is the former policy adviser and field director for 6th District Congressman Ben Chandler. He is the former Director of the Budget for the Administrative Office of the Courts, which oversees Kentucky's court system.

Gray said the group features a wide range of perspectives on city government and public finance.

"In addition to those who are experts in budgeting and finance, Dr. Stevens brings historical perspective, in that he was a member of the Charter Commission, which wrote the city charter, and he brings the perspective of the Council, where he served for 16 years," the Mayor said. "As President of the United Way of the Bluegrass, Bill Farmer offers the essential perspective of our most vulnerable citizens. In heading up the transition, Chris Frost understands the public's point of view after overseeing our tradition teams, which involved 80 citizens."

Gray said balancing the current budget, which ends June 30, will require adjustments totaling between \$11-\$16 million. The budget for the next fiscal year, which begins July 1, will require more expense reductions, he said.

* * *

**PHOTO CAPTION:** Mayor Jim Gray announces members of his finance advisory group.

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www.twitter.com/JimGrayLexKY

# Budget & Finance Committee

## ***Series 2010 F, G, H***

*February 22, 2011*

# December, 2010

Issued New Money (Series 2010F&G)

- Build America Bonds - $6MM
- Recovery Zone Bonds - $9MM

Multi-Purpose Project Funding of

- General Fund - $8MM
- Urban Fund - $7MM

Issued Refunding (Series 2010H) - $4.5MM

## LFUCG Credit Analysis

Both Rating Agencies Downgrade LFUCG one notch

- Moody's (to Aa1 from Aa2)
- Standard and Poor's (to AA from AA+)

Why

- Structural Imbalance Significantly Reduces Financial Reserves
- Finances Remain Pressured in Fiscal 2011, Relevance on One-Time Revenues and Economic Contingency Reserves
- Under Funded Pension Present Challenge
- Moderate Debt Level Expected to Increase

## What happened During the Sale?

New Money (Federally Subsidized)

- Series F
  - Tax-Exempt Equivalent - 1.68%
  - Average Life - 3.87 Years
- Series G
  - Tax-Exempt Equivalent - 2.57%
  - Average Life - 10.00 Years

Refunding – (Current LFUCG Cost of Capital)

- Tax-Exempt - 3.17%
- Average Life - 6.92 Years

# Benchmark of Credit Impact

## The Commonwealth of Pennsylvania issued Bonds Rated Aa1, LFUCG Rating Prior to the Downgrade.


NEW ISSUE – BOOK-ENTRY ONLY

$650,000,000
Commonwealth of Pennsylvania
General Obligation Bonds

$11,500,000
Third Series C of 2010
(Tax Exempt)

| Ratings: | Moody's: | Aa1 |
|---|---|---|
| | Fitch: | AA+ |

# Benchmark of Credit Impact (cont.)

| | LFUCG TEs | PA | Spread |
|---|---|---|---|
| 2011 | 1.00 | | |
| 2012 | 1.20 | 0.65 | -0.55 |
| 2013 | 1.40 | 1.05 | -0.35 |
| 2014 | 1.75 | 1.45 | -0.30 |
| 2015 | 2.00 | 1.75 | -0.25 |
| 2016 | 2.35 | 2.00 | -0.35 |
| 2017 | 2.80 | 2.45 | -0.35 |
| 2018 | 3.00 | 2.80 | -0.20 |
| 2019 | 3.30 | 3.20 | -0.10 |
| 2020 | 3.60 | 3.50 | -0.10 |
| 2021 | 3.80 | 3.65 | -0.15 |
| | | | |
| | | Average | -0.27 |

Current Estimated Cost of Downgrade

(Typical Tax-Exempt Issue)

≈ $20MM * 20 years * 0.27% =

**≈ 500k Additional Interest over 20 years**

# *Questions*

# EXISTING COMMITTEE ITEMS IN NEW COMMITTEE STRUCTURE

**Budget & Finance Committee**

March 22, 2011

| Item | Referred By | Date |
|---|---|---|
| Solid Waste Costs & Tax Structure | Gorton | 2-1-11 |

| Item | Old Committee | New Committee | CM Referred |
|---|---|---|---|
| Local Vendor Preference | Inter Governmental | Bud/Finance* | Gorton |
| Minority/Women Business Recruitment | Inter Governmental | Bud/Finance* | Stinnett |
| Purchasing, Procurement & Professional Service Selection Process | Inter Governmental | Bud/Finance* | Crosbie |

* Purchasing related items were also referred to Purchasing & Procurement Task Force