

Lexington-Fayette Urban County Government Council Meeting
State of the Merged Government Address
January 24, 2012

The Council of the Lexington-Fayette Urban County Government, Kentucky convened in regular session on January 26, 2012 at 11:30 a.m., in the Hyatt Regency Hotel, 401 W. High Street, Lexington, Kentucky. Present were Mayor Jim Gray in the chair presiding, and the following members of the Council: Council Members Gorton, Henson, Kay, Lane, Lawless, Martin, McChord, Myers, Stinnett, Beard, Blues, Ellinger, Farmer, and Ford. Absent was Council Member Crosbie.

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

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Good afternoon, good afternoon! Thanks to all of you for being here. Vice Mayor Gorton, Councilmembers, Members of the Lexington Forum, President Darryl Terry, audio-visual master Sam White, and event organizer extraordinaire Kim Sweazy. Kim, where are you? As always, thanks for all of your hard work on this. And the Forum Spirit award winner this year, Alan Stein. I can't mention Alan, without mentioning our state senator Kathy Stein and recognizing all of the hard work both of them have done on behalf of this community. Let's give them richly deserved thanks and recognition!

All of the engaged citizens in this room, thanks to all of you. You know, I often say that even on a bad day this is a great job and I'm thankful for it. I also say we should take our jobs seriously, but not ourselves. Well Bill Howell reminded me of the truth of that. Where's Bill, PNC Bank's table? There you are! So I see Bill on Saturday and he says, "Hey Jim, I'm coming to your talk on Tuesday!" "Thanks man," I said enthusiastically, "really appreciate it." "Yeah," he said, without missing a beat. "I never pass up a free lunch!" Now that was reassuring, Bill! I'm sure there's nobody else like that in here today!

I think it was Michael Nutter, Philadelphia's no nonsense Mayor, who said, "If you have a deep need to be loved, don't run for Mayor; work in a pet store!" I think that really ought to be, "don't run for Mayor or Council." Our Councilmembers are a great group. I wish I could update you on all of their projects in this speech, but that would require much more than our one-hour lunch. So I won't try to point out all of their individual accomplishments. But many of the initiatives I'll mention today are guided by Council leadership. Join me in thanking every one of them!

You know, I confess, I love to start a talk like this with a tribute to our city's history. Lexington is a great city, settled 237 years ago in 1775. And then only two years after that, why, Rupp Arena was built. OK, OK, President Capilouto, thank you for being here, we'll come back to Rupp in a minute. Dr. Capilouto, you are doing an extraordinary job! Thanks also to Bluegrass Community and Technical College President Augusta Julian for being here today. BCTC is building a new downtown campus on a site that also has a lot of history. Close to Transylvania university whose presence and founding in 1780 is a touchstone we all go back to. Thank you President Owen Williams for joining us.

Valuing and understanding what's special, unique and authentic about our history helps provide a guide, a road map for today and for tomorrow. And, I'll bet many of you would agree that the journey is the safest when the roadmap is the clearest. That's why themes we set out with more than a year ago, in little events called a campaign and election, are still guiding us today. And they are the themes we'll use today to look back on 2011, and look ahead to 2012 and beyond.

And what are those themes? Here they are: Create Jobs. Run government efficiently. Build a Great American City. These themes hang on banners, in the Mayor's Office, First Floor, City Hall. These themes co-exist - we can't accomplish one without the others. We need all three to compete and grow.

To create good jobs we must build a Great American City, the kind of city that offers the quality kind of life and place that will attract creative, talented, smart people. The kinds of people who can create good companies that offer good jobs.

Building a Great American City requires an efficient government. Not an option. Benjamin Franklin would say it best - spend every nickel you need but not a penny more. All businesses recognize there are times when we have to save money to make money or reduce our cost basis, in Toyota language. And all good businesses recognize there are times when we have to spend money to make money, to invest in our brand for a better tomorrow, a more promising future.

So they all go together: Create jobs / Run Government Efficiently / Build a Great American City. Now at the top of the banners, where it belongs - Create Jobs. Government doesn't create jobs, but it can create the conditions, the environment for

jobs. A couple of weeks ago, Louisville Mayor Greg Fischer and I went to the Detroit Auto Show with Governor Beshear. I've been there before. It's the best auto show in the world, and a must for our company for many years. But it's also a must in my role as Mayor, because Mayors should view their cities through an entrepreneurial lens, a lens of change and imagination. Mayor Fischer and I knew the auto show was important, because of Toyota in Georgetown. Got a note from Toyota the other day that in 2012 Toyota will produce car number 25 million in North America. Congratulations to Wil James, who is here today and who has been such an asset on the Rupp District task force - thank you!

We also knew the auto show was important because of Ford in Louisville. Because Kentucky is the fourth largest manufacturer or supplier of auto parts in the nation, these 440 companies employ 68,000 Kentuckians. And because the Argonne-Kentucky national lab at Spindletop will soon be on-line. The lab will perform automotive battery research and development, tapping into UK and U of L brain power to position Kentucky as a leader in the next generation of electric cars.

This entrepreneurial focus on creating jobs also included creating BEAM, the Bluegrass Economic Advancement Movement. BEAM is an innovative economic development partnership Mayor Fischer and I initiated to develop a regional business plan focused on advanced manufacturing, the industry sector where almost 100,000 jobs are held between the two cities and regions. We were one of four regions in the nation selected to work with the Brookings Institution, the best brand in the world for innovation and imagination, to develop a plan to build on existing strengths and work together to achieve significant job growth in advanced manufacturing and other key industry sectors. We've put Jim Host at the helm of this project. The importance of the BEAM project will continue to grow because it's focused on creating a worldclass advanced-manufacturing region here in the Bluegrass – creating in our super-region a gravitational pull for investment and jobs.

In addition to BEAM, Lexington-Louisville partnership, we've also created a working group to explore issues that are common to our state's fastest growing metropolitan areas, Louisville, Lexington and Northern Kentucky. Lexington is the second fastest-growing city in the state – no escaping it.

The work of creating jobs represents government and business working together. Looking back over the past year I've often heard folks say Lexington is blessed, we have weathered the recession better than most. And we are blessed. But then I am reminded that at the height of the recession, in 2009, we could fill Rupp Arena with the unemployed in our metro area. 25,000, that's almost 10 percent of the region's 265,000 workforce. It's been tough, but we've recovered 10,000 of those jobs. But that's because some people have stopped looking, given up.

We still need jobs. We still need jobs. And UK economist Ken Troske points out, the jobs we have recovered haven't been as good as the jobs we had. We must create more high-paying, working class, middle class jobs.

Now even so, when you look around this room it's a great reminder our business community is full of creative, exciting entrepreneurs and they're doing all kinds of great work. A few recent examples from creative developers:

Holly Wiedemann and AU Associates, who will announce completion of Parkside in a news conference tomorrow. Parkside, a creative affordable housing development, was once the Cross Keyes YWCA. Talk about re-invention! Location - just off Alexandria Drive.

And distressed properties mean distressed neighborhoods. Big deal that Sonnet Cove Apartments off Lakeside and Pennington Place apartments off Richmond Road at New Circle are being restored!

Also here today, creative social entrepreneurs Aaron Mosley and his nephew, Logan Averitt, who live every moment to serve, develop, and invest in the youth of our city, just as we work to address the needs of our senior citizens through a Council Task Force.

And, The Herald Leader's Tom Eblen writes with good entrepreneurial insight about our opportunities and our challenges. Tom points out to me that as UK works to solve its residency issues, UK helps Lexington solve its problems in the neighborhoods surrounding campus. And Tom points out that it's never about UK or Lexington. It's always about UK and Lexington.

And also here with us today, Drew Curtis, who has become an evangelist for Lexington's tech culture and recruiting venture capital. And Ben and Becca Self, who

are turning the old Rainbow bread factory on Sixth Street into a place for innovation. These entrepreneurs are joining our more established businesses that have decided to locate their corporate headquarters here, Tempur-Pedic, Florida Tile and A&W Brands.

OK, we've talked about jobs. Next on our banner, Run Government Efficiently. Now some of you have heard me say in this job you've gotta love three things. You've gotta love people. You've gotta love your city. And you gotta love problems, because we've got plenty of them.

Our first budget, a businessman's budget, reflected our efforts to address long-standing problems, and stakes a claim on solid operational and financial management and government efficiency. Ensuring that government live within its means, we overcame a \$9 million deficit inherited in the 2011 fiscal year budget, and we are now overcoming a \$25 million deficit in the 2012 budget. Our commissioners and my senior staff are taking a two-week unpaid furlough and I'm investing half of my salary in quality of life improvements and economic development.

The 2012 budget included no new taxes. The budget made tough changes in employee health insurance. Regrettably, the city had been subsidizing the cost of employee health care costs by an average of \$10 million a year for three years, and the price-tag has been growing each year. In this year's budget, if we had not taken steps to curb our costs, the subsidy might have risen to \$16 million. In addition to asking employees to contribute, we invested in a health clinic and, soon, a pharmacy - programs that we predict will save money for both the city and employees. So I want to thank our employees who have sacrificed as we have moved through this tough transition with health insurance, especially general government employees, who have worked with us even though the last raise was a 1 percent raise in 2009.

When we come out of this ditch, and we will, these folks deserve the first hand of thanks and appreciation, a hand of thanks reaching out to lift them up. I'm talking about the employees who keep the potholes patched, the garbage collected, the traffic moving. Like Keith Martin, who patches pot-holes and keeps roads free of snow in Streets and Roads. Keith recognized our asphalt wasn't working as well as it could in the patching mix. Working with his boss, Sam Williams, he found a mixture that works better. Government employees make those kinds of improvements every day and they

deserve recognition. They're the backbone of government. Pam Brandenburg represents them through CSEA. Pam, Keith, Sam, thanks for being here today.

Stay with me now - we're still talking about the pursuit of efficiency, which is about striving for excellence. We are also addressing long-term operational issues outside of the budget, problems that have accumulated over the years, resulting in lawsuits, low morale, safety concerns and inefficiencies. With new management has come significant improvement at our jail, improved personnel and safety protocols, better medical service for inmates. There's plenty of work to do, but in 5 short months, Ray Sabbatine has accomplished a lot. Ray couldn't be with us today. He has been working with Glenn Brown from my staff who, like Ray, is a former director of our jail.

Because of close collaboration between the Board of Health and Senior Adviser Geoff Reed on my staff, we have new leadership at the Health Department. Dr. Rice Leach has cleared a path for the creation of a new health clinic for low income citizens.

E-911 is back under the supervision of police and fire, addressing many concerns. And I want to recognize Interim Fire Chief Keith Jackson, who, in his first year in this role, has significantly reduced overtime costs from as much as \$3.2 million in 2010 to \$30,000 this year, improving morale and helping build our government-wide business planning system. Keith, you know that real leadership is about overcoming adversity. Thank you.

It's no secret with the adoption of collective bargaining for fire and police in 2004, and corrections in 2006, our budget landscape changed a lot. During the last five years, our fire and police employees have fared very well in the collective bargaining process. With the financial situation we face today it is important to remember almost 90% of the increased revenues our city took in between 2002 and 2011, \$9 out of every \$10 went to public safety. In absolute dollars, that's an increase of \$63.5 million out of a total revenue increase of \$71 million. That makes our total public safety budget \$155 million this year alone.

Now, with the revenue shortfalls and tighter budgets, we must ask our public safety employees to make sacrifices. To meaningfully address our budget, public safety needed to be examined carefully and the collective bargaining process needed to become a meaningful tool in restoring balance to our finances. Clearly we needed

advice from a professional contract negotiator, and this year we engaged one. I'm pleased to report our firefighters stepped up to help the city and sacrificed, and so have our Corrections employees, in an agreement approved just yesterday. Police negotiations continue. We budgeted \$5.6 million in savings from union contracts in this year's budget. We must understand that when it comes to cutting the city's budget further we have very few options left outside of layoffs.

Although in our first budget we made progress in our drive toward financial responsibility and we have made some progress in addressing long-standing problems, there are still challenges out there. Our pension and its mounting unfunded liability is clearly a significant problem, one we share with cities and states across the country. But in Kentucky, Lexington is the only city that has its own pension system, all other active fire and police fall under the state's pension system.

As the law exists today, the legislature makes the rules our pension system follows, but Lexington taxpayers have to pay for it. Here's what that leads to: About 8 percent of state police are given disability pensions. In Lexington, 38% of our police and fire officers take disability pensions. In 2008, the legislature started addressing state pension problems, but left Lexington's system alone. We hope the legislature won't take the same course again. Please don't bypass Lexington's growing crisis. We ask Lexington's legislative delegation to please step up and help fix our system.

The city is not legally empowered to address this problem even though it impacts every Lexington taxpayer. We have appointed a task force to work on finding reasonable solutions to submit to the General Assembly. Thanks to Tim Kelly, who is leading this group and is here today. We remain committed to addressing our pension concerns in a meaningful way. We know the problem wasn't created in a day or a year and it will take time to correct, but we must stay focused on it.

Since we're talking about Frankfort, I want to welcome our new senator, Dorsey Ridley. He's here with us today. Dorsey, Lexington is just like your hometown of Henderson. We have many issues, and we'll need your help. Let's give him a warm welcome.

So we've talked about jobs. We know creating jobs is part of building a Great American City. We know that government efficiency is part of building a Great American

City. Now, what else is part of Building a Great American City? To attract talented people to Lexington - the kind of people who can and will create good jobs and businesses and raise the economic water table. Building a Great American City includes making smart, wise investments in our brand. Hey, when you're green you grow. When you're ripe you rot.

When we fail to continuously, rigorously and vigorously invest in the brand, the brand will decline. No market is forever. We know that talented people can choose where they live. If we want them to choose Lexington, investing in our urban core is essential.

How? Through inspired urban design that creates a sense of place. Thanks to Michael Speaks, Dean of the College of Design at the University of Kentucky, for speaking out in Sunday's paper. We saw Jeanne Gang, the MacArthur genius grant recipient for architecture, create a sense of place with her design for CentrepoinTE. We're seeing the importance of design with the good work of the Design Excellence Task Force and its report-out comes later today in a Council meeting.

Mayor Fischer and I saw it in Detroit at the auto show, where it was all about design, as well as great technology and engineering. What was the message there? The U.S. auto industry's recovery is related to great technology and great design, exceeding the expectation of every customer. That's Steve Jobs' legacy. And it applies to cities as well!

In the past year, a lot of good planning has occurred. Some of the bigger plans have involved investing in our urban core, our downtown. Lifting up what is unique and elevating our brand. A year ago when I stood with you here I introduced the idea of a task force to examine Rupp Arena and the creation of an Arts and Entertainment District that would boost business. Since then, 47 citizen/volunteers have worked to create a plan for 46 acres in and around Lexington Center, the core of our downtown. The city owns those 46 acres, a unique asset for any community. The Task Force has been developing a plan to activate these 46 acres now mostly covered by parking lots. And Task Force Chair Brent Rice is here with us today, as are Committee Chairs Wil James and Luther Deaton and several members of the Task Force. And I want to thank each of you for your hard and spirited work!

Now, Wil James said it best: This is all about economic development, a project to grow jobs by encouraging investments in both the Lexington brand, and the top-notch University of Kentucky basketball brand. All of the work of the Task Force has been privately funded. Brent Rice has done an incredible job with fund-raising! Now the District is, of course, about much more than Rupp Arena, but most of the public discussion has been about Rupp Arena. Can't help it! It's to be expected: the Rupp brand extends far beyond our City limits, representing our State and our citizens to the nation and even beyond our national borders. Yes, UK basketball is one of the top sports brands in the world. An early decision point for the Task Force was whether Rupp should be re-invented or replaced entirely. To help them, the Task Force brought together a 'dream' team of some of the best architects, engineers and sports arena construction, and management firms in the country, in fact, the world. The unanimous choice of the group's Planning and Design Committee, chaired by former Mayor Pam Miller, was to re-invent. Importantly, it's about half the cost of building a new arena. It will build upon the authentic history and energy that exist today in Rupp Arena.

Now, let's listen to the voice of the Coach himself, Coach Adolph Rupp, from way back in 1975, as we take a look at the great bones of Rupp as reimagined and re-invented. [Video Clip] Coach Joe Hall, member of the Task Force, here today told us just about the same thing. "We need to make it unique," he said. "Don't just copy something else, another arena." This design, the vision of the district's Master Planner Gary Bates, frees Rupp peels away the industrial outer skin of the arena and replaces it with glass to encourage the energy inside to flow into the outdoor plaza, where modern electronic video screens will engage outside fans and audiences.

I have to confess, the best endorsement I've heard about this plan came from a fellow in Louisville who knows a little bit about branding and marketing, Bill Samuels Jr., Makers Mark. He built the Makers Mark brand into an international power house. Bill called me after he saw the story in the paper, and said, "Jim, Just want to tell you, I saw that picture of Rupp and that District and I fell out of my chair. That's the best thing I've seen come out of Lexington in my lifetime."

So, let's take a look at the inside. This is a conceptual image the task force got last week. Here's a few details about some of the changes:

- o 800-1000 new Lower Arena seats
- o Precision demolition and reconstruction of the Upper Arena with all chairback seats
- o New 8-sided Center-Hung Scoreboard
- o New wireless technology
- o Premium seating
- o Larger concourses
- o More restrooms ... shorter lines!
- o New entry lobby at Triangle Park

All in all, folks, we're talking about a new arena inside and outside the box next door. Thanks again to Governor Beshear. Making this project a priority in his budget gives us a lot of momentum and highlights its importance to the entire state. On January 31st, the task force will make its final report to the public. This project is right on schedule. We're on step three of 10, right where Brent Rice said we would be at this time.

Now, today, here's what we look at when we look at the District. Here's the District with the reinvention the new design proposes. The district includes many possibilities - new arts facilities, convention space, commercial and residential development, and new downtown educational and business venues. The Task Force has already been working with Fayette County Schools Superintendent Shelton, and the Schools' Chief Operating Officer Mary Wright, and they're both here with us today. They're joined by SCAPA principal Beth Randolph and two of her students, Amir Abou-Jaoude and Kate Cox. And just last night, the Fayette County Board of Education voted unanimously to explore the possibility of opening a downtown arts school, close to arts facilities, that would reflect and amplify the diversity of our city.

So, it's not all about Rupp. It's about the entire District and the way it relates to downtown. In other cities, Columbus, districts like this are proven winners when it comes to job creation, private investment and economic development. Columbus reports \$20 million in increased revenue through the district and their improving downtown.

Great design has become an economic driver. So adjusting the way we think about our city is a good thing. When we use words like brand and history and economic development, think "preservation," think, "our extraordinary Bluegrass, world-class rural landscape." Then, imagine that preservation and growth go hand-in-hand. By creating an active, engaged, vibrant urban core and downtown, we leverage the investment and

intellectual horsepower of the educational system we invest in. And at the end of the day, we have a better chance of preserving what makes us special, the Bluegrass.

Strong economies do just that. They raise the economic water table, they create jobs and opportunities, they preserve what's unique and special. We are entering a new era. According to the census figures, Lexington has just passed the 300,000 mark. That's a very big deal. We are a city – but, thankfully, we are not like any other city. Only cities that are true to themselves, that are authentic, become Great American Cities – places that have an extraordinary gravitational pull on people, innovation, investment, and engagement.

Let me dial back in closing to 1832, 180 years ago. That's when Henry Clay made plans to raise a million dollars to build the first railroad connecting Lexington to Louisville. That was an investment equivalent of almost \$1 billion today. It was all about economic growth, giving the next generation a leg up in life. Clay dreamed of Lexington not as a hamlet or a village or a town, but as a Great American City.

That's what Adolph Rupp was talking about too. And that's what we're talking about today. This is Lexington's moment. This is our time.

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The Council adjourned at 12:59 p.m.

Clerk of the Urban County Council