Ellinger
Gorton
Kay
Ford
Beard
Farmer
Henson
EQ Chair
TBD
TBD

AGENDA
Budget & Finance Committee
January 29, 2013
1:00 P.M.

1. **Election of Committee Chair**
2. **Selection of Vice Chair**
3. **11.27.12 Committee Meeting Summary** **(1-3)**
4. **Monthly Financial Report** **(4-14)**
5. **Comprehensive Annual Financial Report and Management Letter** **(15-39)**
6. **Affordable Housing Trust Fund – Henson** **(40-49)**
7. **Items Referred to Committee** **(50)**

"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

Future Meeting Schedule

February 19
March 19
April 30
May 28
June 18
August 27
September 24
October 22
November 19
December 10

BUDGET & FINANCE COMMITTEE
November 27, 2012
Summary

Ellinger called the meeting to order at 1:00 PM. All committee members present except Myers and Beard. Ford and Henson were also present.

I. 10.23.12 Committee Meeting Summary

A motion by Lane, second by Kay to approve the 10.23.12 Committee summary passed unanimously.

II. Comprehensive Annual Financial Report/Fund Balances/Monthly Financial Monthly Financial Report

Mayor Gray introduced Jane Driskell to provide the Comprehensive Annual Financial Report (CAFR); the fund balances; and the monthly financial report.

Driskell stated that LFUCG was issued a clean financial opinion on November 15, 2012 for the year end financial statements. She stated that the A133 would be completed by Feb 2013 and the auditor would present their findings at the February meeting as well.

She stated that the unrestricted balance in the Urban Fund is $ 22.8 million or 63% of the annual revenue. The Sanitary Sewer fund has a capital reserve of $ 56.2 million and a fund balance of $ 4.8 million. The Landfill Fund has a fund balance of $ 11.1 million or 154% of the annual revenue. The Water Quality Fund has a fund balance of $ 7.2 million or 59% of the annual revenue.

Driskell stated that the General Fund has a non-spendable fund balance of $ 1.5 million; an assigned fund balance of $ 39.5 million and an unassigned fund balance of $ 3.3 million.

She noted that the non-spendable balance consist of contractual or legal obligations. The assigned category consists of items earmarked for specific purposes.

Driskell stated that the General Fund assigned fund balance includes funds for the 27th pay period; a ligation reserve; HOME match; a health care reserve; tax refunds; an economic development reserve; capital carry forward; a transfer to the Urban Services Fund for street lights; and the Economic Stabilization Fund.

Gorton asked about the differences between non-spendable, assigned and un-assigned fund balances.

Ellinger, Gorton and Stinnett thanked Driskell for her serve to LFUCG.

O'Mara discussed the monthly revenue report. He noted that revenue in the major categories is about $ 800,000 over budget.

Barrow discussed the FY 13 General Fund cash flow. He stated that there is a positive variance of approximately $ 1.5 million between actual revenue and budget year to date. He also reported that actual expenses were about $ 3.8 million below budget year to date, providing a net income year to date of $ 5.2 million. He noted that timing was a factor in some of the positive variance but expenses were down and revenue was exceeding budget.

Gorton, Lawless and Lane all thanked Barrow for his service to LFUCG.

III. Affordable Housing Trust Fund

Ellinger called on Schoninger to summarize his Nov 19 memo. Schoninger stated that Stinnett had several information requests at Sept 25 committee meeting including role of the Lexington Housing Authority; Housing Authority waiting list; funds expended on affordable housing; and number of affordable housing dwelling units in Lexington-Fayette County.

Schoninger stated that the Housing Authority has a waiting list of 2,376 families for conventional public housing; and a waiting list of 316 for choice voucher assistance.

He also reported that since 2005 LFUCG has expended $ 37.8 million on affordable housing programs using a combination of local and federal HUD funds.

Kay stated that the Homelessness Commission will finish its work in early 2013 and he wanted to keep this item in Committee.

Stinnett asked Kay if the report will include recommendations regarding funding and adequate housing stock. In response Kay stated it will include funding, housing units and identify restructuring existing housing assistance.

Blues asked if the Report will respond to the recommendations of the Affordable Housing Trust Fund.

Lawless stated that the affordable housing issue was more than about the homeless population.

Ford discussed the need for an affordable housing trust fund.

Ellinger stated if there is a proposal to raise the insurance premium it will need to be implemented within the 1st quarter of the year.

Henson stated that there is a need for affordable housing but that it should be dealt with in a responsible efficient and effective manner.

Kay stated that the Homelessness Task Force has examined best practices from other communities.

Ford stated that he hoped that we would not lose sight of the recommendations from the Affordable Housing Trust Fund. He stated that that was different than services needed to address the homeless population.

Farmer suggested bringing the Housing Authority into this discussion. In response CAO Moloney stated that he will include Austin Simms and others from the Housing Authority.

The Committee heard from several citizens, including Adam Jones, Ann Garrity, Sister Iris Sutton and Vera Thomas who spoke in favor of the recommendations of the Affordable Housing Trust Fund.

IV. Items Referred to Committee

Lane requested that the issue of economic efficiency and best practices be part of the January 2013 agenda.

Schoninger summarized the items referred to Committee

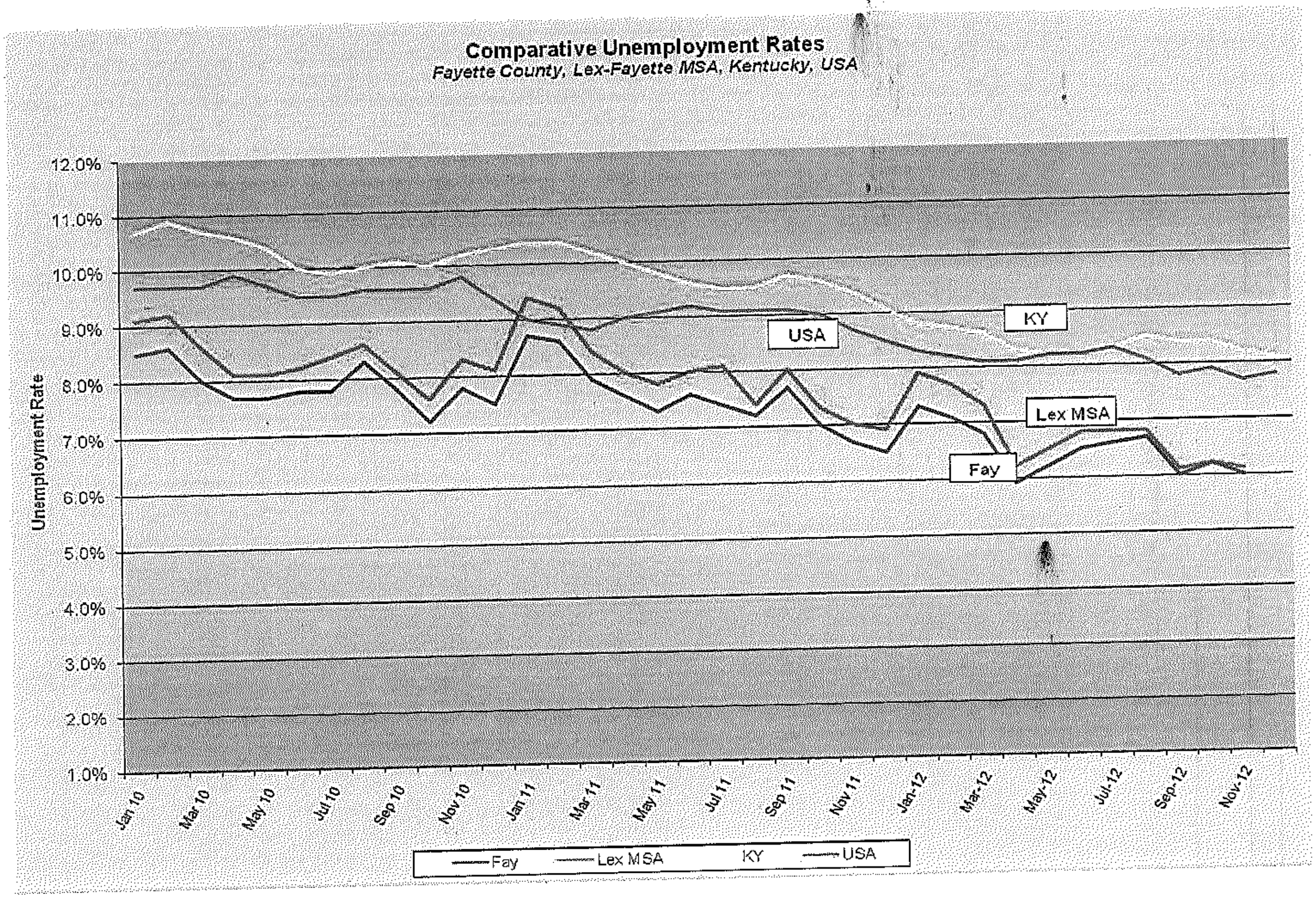
The meeting was adjourned at 2:45 PM.

PAS 11.28.12

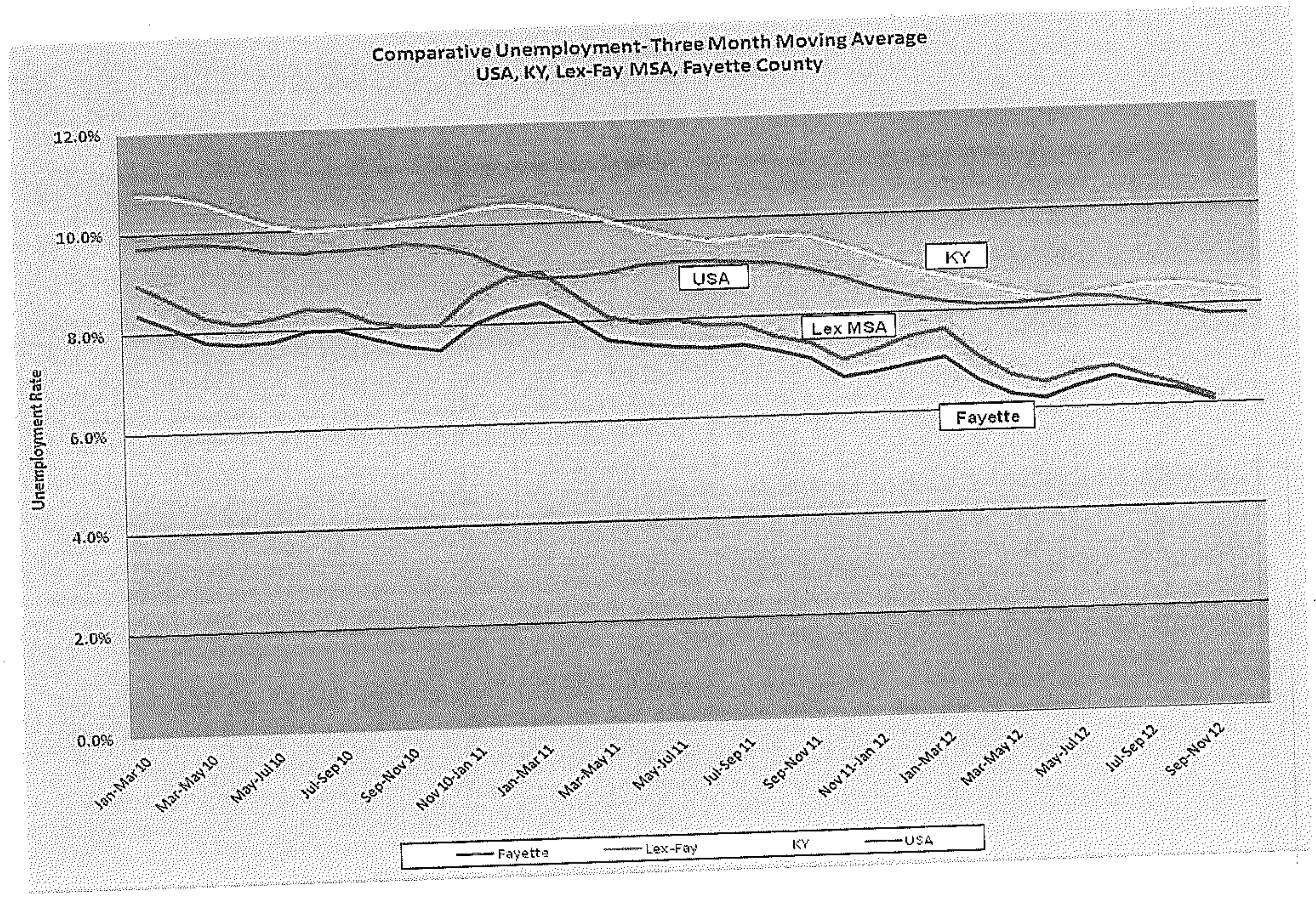
Budget & Finance Committee

Financial Update
January 29, 2013

Comparative Unemployment Rates



Comparative Unemployment Rates Three Month Moving Average



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Comparison of Economic Indicators 2011 / 2012

Comparison of Economic Indicators

Economic Indicators		Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette Co. Unemployment Rate	2011	7.6%	7.4%	7.2%	7.7%	7.0%	6.7%	6.5%
	2012	6.5%	6.6%	6.7%	6.0%	6.2%	6.0%	N/A
Quarterly Fayette County Employment	2011	175,000	-	-	176,500	-	-	179,500
	2012	178,500	-	-	N/A	-	-	N/A
Fayette County Permits Issued	2011	1,405	1,195	1,292	1,102	1,109	893	726
	2012	1,492	1,218	1,609	1,064	1,244	1,257	870
Fayette County New Business Licenses	2011	199	223	224	223	265	187	128
	2012	212	209	216	210	254	178	132
Home Sales (MSA)	2011	720	614	713	610	512	552	596
	2012	785	864	850	676	727	673	605
Fayette County Foreclosures	2011	39	39	53	25	29	38	33
	2012	65	61	57	66	92	90	72

N/A indicates information not available.

December 2012 Actual/Adopted Budget

December 2012 Monthly Actual Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	%
OLT- Employee Withholding	13,789,708	12,366,027	1,423,681	11.5%
OLT - Net Profit	2,429,068	3,937,419	(1,508,351)	-38.3%
Insurance	12,532	37,943	(25,411)	-67.0%
Franchise Fees	338,273	548,217	(209,944)	-38.3%
TOTALS	16,569,582	16,889,606	(320,024)	-1.9%

December 2012 YTD Actual/Adopted Budget YTD

December YTD Actual Compared to Adopted YTD Budget

Revenue Category	Actual	Budget	Variance	%
OLT- Employee Withholding	80,530,699	79,901,648	629,051	0.8%
OLT - Net Profit	8,824,569	11,002,197	(2,177,628)	-19.8%
Insurance	11,988,649	11,371,509	617,140	5.4%
Franchise Fees	8,455,700	10,504,223	(2,048,523)	-19.5%
TOTALS	109,799,617	112,779,577	(2,979,960)	-2.6%

December 2012 YTD/December 2011 YTD Less Amnesty Activity

Actual YTD Less Amnesty Compared to Actual Prior YTD Less Amnesty*

Revenue Category	Dec '12 YTD	Dec '11 Actual	Variance	%
OLT- Employee Withholding	80,530,942	77,343,619	3,187,322	4.12%
OLT - Net Profit	8,824,569	10,001,204	(1,176,635)	-11.76%
Insurance	11,988,649	11,352,525	636,124	5.60%
Franchise Fees	8,455,700	8,354,133	101,567	1.22%
TOTALS	109,799,860	107,051,482	2,748,378	2.57%

FY 2013 Code Enforcement Nuisance Abatement/Lien Collections

FY 2013 Code Enforcement Lien Collections

Month	Administrative Collection Fees	Miscellaneous	Penalty & Interest	Total
July	975	1,430	22,987	25,392
August	1,676	959	15,266	17,901
September	975	573	11,445	12,993
October	3,225	1,572	28,214	33,010
November	626	695	12,107	13,428
December	300	459	5,577	6,336
Total Collections YTD				109,060

2013 Fiscal Year - Cash Flow Variance
Revenue

	ACTUAL YTD -DEC 2012	BUDGET YTD -DEC 2012	Variance
Revenue			
Payroll Withholding	$80,530,699	$79,901,649	$629,050
Net Profit	8,824,569	11,002,197	(2,177,628)
Insurance	11,988,649	11,371,509	617,140
Franchise Fees	8,455,700	10,504,223	(2,048,523)
Other Licenses & Permits	4,029,842	2,578,257	1,451,585
Ad Valorem	17,390,536	16,703,911	686,626
Services	10,031,823	10,149,082	(117,260)
Fines and Forfeitures	205,754	101,941	103,813
Property Sale	70,588		70,588
Intergovernmental	795,959	810,587	(14,627)
Investment Income	108,488	34,000	74,488
Other Financing Sources	50,000	100,000	(50,000)
Other Income	984,641	848,387	136,254
Total Revenue	**$143,467,248**	**$144,105,743**	**($638,494)**

2013 Fiscal Year - Cash Flow Variance Expense

	ACTUAL YTD-DEC 2012	BUDGET YTD-DEC 2012	Variance
Expenses			
Personnel	($77,808,756)	($82,374,841)	$4,566,085
Operating	(16,115,141)	(17,197,576)	1,082,435
Debt Service	(11,896,476)	(11,704,586)	(191,890)
Partner Agencies	(8,247,202)	(8,420,923)	173,721
Insurance - Expense	(1,011,885)	(1,011,885)	(0)
Operating Capital Expenditures	(778,582)	(427,100)	(351,482)
Total Expenses	**(115,858,042)**	**(121,136,911)**	**5,278,869**
Interfund Transfers			
Transfers	(649,282)	(589,096)	(60,187)
NET INCOME	**$26,959,924**	**$22,379,736**	**$4,580,188**

Questions ?

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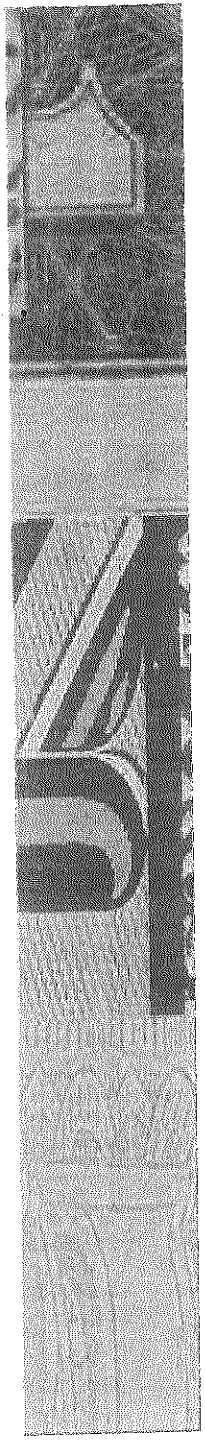
Lexington-Fayette Urban County Government

Report to Budget and Finance Committee
January 29, 2013



Budget and Finance Committee
Lexington-Fayette Urban County Government

We are pleased to present this report related to our audit of the financial statements and compliance of Lexington-Fayette Urban County Government (the Government) for the year ended June 30, 2012. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Government's financial and compliance reporting process.

This report is intended solely for the information and use of the Budget and Finance Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Government.

Dean Dorton Allen Ford, PLLC

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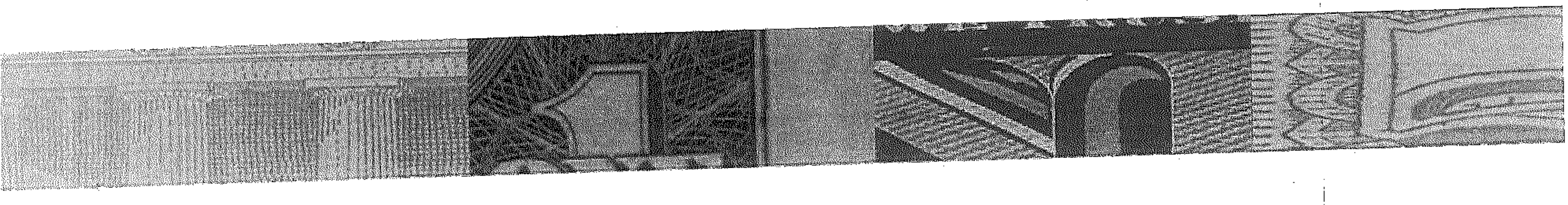

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Introduction

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Auditors' Professional Responsibilities

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our arrangement letter dated June 6, 2012.

Our responsibilities, as stated in our auditors' reports, are summarized as follows:

- Our audit was conducted in accordance with standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of the Single Audit Act, OMB Circular A-133, and OMB's Compliance Supplement.
- Our audit was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and are fairly presented in accordance with accounting principles generally accepted in the United States.
- In planning and performing our audit, we considered the Government's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Auditors' Professional Responsibilities, continued

- Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Our audit also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- Our audit was also designed to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred.
- We considered internal control over compliance with the requirements of major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but we do not express an opinion on the effectiveness of internal control over compliance.
- Our audit included examining, on a test basis, evidence about the Government's compliance with the types of compliance requirement described in OMB Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Government's compliance with those requirements. Our audit does not provide a legal determination of the Government's compliance with those requirements.

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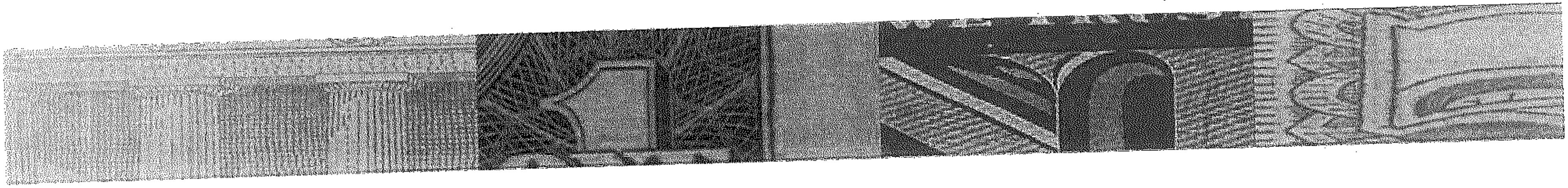
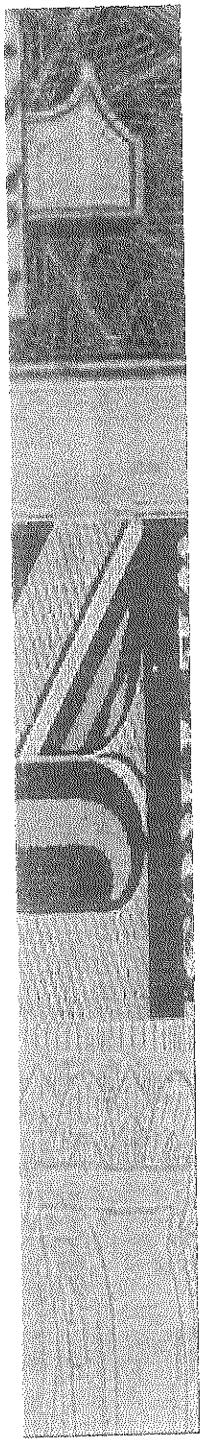
Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Government. The Government did not adopt any significant new accounting policies during the current period.



Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates reflected in the Government's June 30, 2012 financial statements.

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Management's Judgments and Accounting Estimates, continued

Net Pension and Other Post Employment Benefit (OPEB) Obligations

Accounting Policy – The Government records an accrual for net pension and OPEB obligations based on the cumulative difference between the annual required contribution (ARC) and actual contributions made. The ARC is based on assumptions such as the rate of compensation increase, the discount rate applied to the expected benefits and the expected rate of return on assets.

Estimation Process – An independent actuary performed the detailed calculations, based upon information provided by management. Management reviews the assumptions used by the actuary to ensure that they appear reasonable.

Comments – We analyzed the assumptions used by the actuary and tested the underlying information and concluded that the assumptions used to calculate the net pension and OPEB obligations appeared reasonable in relation to the financial statements taken as a whole.

Management's Judgments and Accounting Estimates, continued

Allowance for Doubtful Accounts

Accounting Policy – An allowance is recorded based on the extent that it is probable that a portion or all of a particular account will not be collected.

Estimation Process – Management periodically reviews the A/R aging to evaluate the collectibility of accounts. To assess collectibility they consider historical loss rates, the age of the account, the collection pattern for the customer, general economic conditions, and any ongoing disputes.

Comments – We tested the underlying information supporting the allowances. We concluded that the allowances were reasonable in relation to the financial statements as a whole.

Management's Judgments and Accounting Estimates, continued

Capital Assets and Depreciation Expense

Accounting Policy – Capital assets with a useful life over one year are recorded at cost and depreciated over the estimated useful life of the asset.

Estimation Process – Management estimates useful lives of capital assets based on past experience.

Comments – We assessed the lives assigned by management and tested the underlying information within the capital asset register and concluded that useful lives assigned to capital assets appeared reasonable and consistently applied in relation to the financial statements as a whole.

Management's Judgments and Accounting Estimates, continued

Landfill Closure Liability

Accounting Policy – The Government recognizes a liability for landfill closure and postclosure care costs expected to be incurred in future periods to monitor and maintain the landfill once closed.

Estimation Process – Total closure and postclosure care costs are estimated based on initial quotations received by third parties which are reviewed by management and adjusted annually for the effects of inflation, changes in technology, or additional long-term care requirements.

Comments – We tested the calculation as well as the underlying data supporting the calculation for reasonableness and consistency with the prior year and concluded the estimated liability appeared reasonable in relation to the financial statements taken as a whole.

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Management's Judgments and Accounting Estimates, continued

Self-Insurance Program

Accounting Policy – The accrued liability for estimated claims represents an estimate of the eventual loss on claims including claims incurred but not yet reported (IBNR).

Estimation Process – An independent actuary performed the detailed calculations, based upon information provided by management. Management reviews the assumptions used by the actuary to ensure that they appear reasonable.

Comments – We analyzed the assumptions used by the actuary and tested the underlying information and concluded that the assumptions used to calculate the claims payable and IBNR liability appeared reasonable in relation to the financial statements taken as a whole.

Management's Judgments and Accounting Estimates, continued

Contingent Liabilities

Accounting Policy – The accrued liability for contingent liabilities is recorded when it is probable (likely to occur) that an asset has been impaired or a liability has been incurred as of the date of the financial statements and the loss can be reasonably estimated.

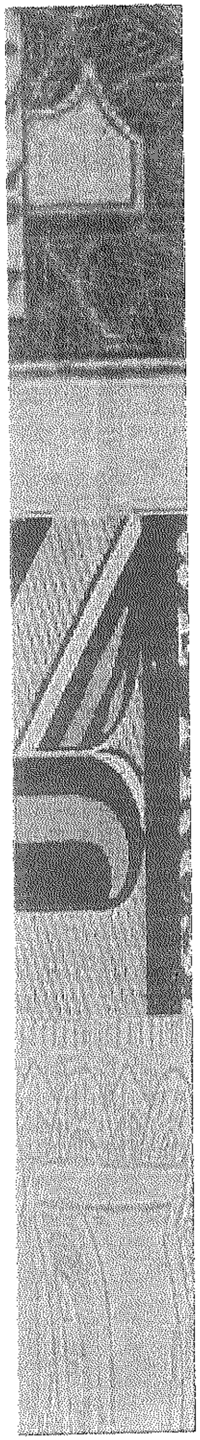
Estimation Process – Management, in conjunction with legal counsel, estimates that there are pending cases in which there is a reasonably possible likelihood that the Government will incur some liability.

Comments – We discussed pending and threatened litigation with management and concluded the contingent liability accrual and related disclosures appeared reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

- Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Government's financial statements relate to accounting for fund types, major and non-major funds, revenue recognition, net asset classification, fund balance classification, contingent liabilities, and accounting for net pension and OPEB obligations.

- We reviewed the disclosures in the financial statements and noted no issues with their neutrality, consistency, or clarity that would need to be disclosed.

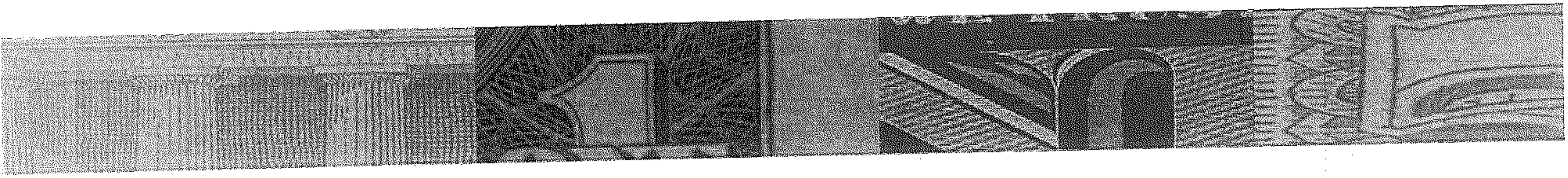


Summary of Recorded Audit Adjustments

- There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected Misstatements

- We accumulated certain uncorrected misstatements that management considered both individually and collectively immaterial and therefore were not made to the financial statements.
- Uncorrected misstatements are shown on the "Summary of Uncorrected Misstatements" attached to the Representation Letter in Exhibit A.



Other Communications Required by Generally Accepted Auditing Standards

Area	Comments
Alternative Treatments Discussed With Management	We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Difficulties Encountered in Performing the Audit	We encountered no difficulties in dealing with management when performing the audit.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.

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Communication of Significant Deficiencies and Material Weaknesses

We have formally communicated significant deficiencies and noncompliance identified during our audit of the financial statements and major federal awards, as required by *Government Auditing Standards* and OMB Circular A-133. This communication is included in the *Schedule of Findings and Questioned Costs* within the separately issued Single Audit Reports Under OMB Circular A-133.

The following information is a summary of the matters communicated.

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Internal Controls

- Control deficiency — A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct financial statement misstatements or non-compliance on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.
- Significant deficiency — A significant deficiency is a control deficiency, or a combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- Material weakness — A material weakness is a control deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or material non-compliance will not be prevented or detected and corrected on a timely basis.

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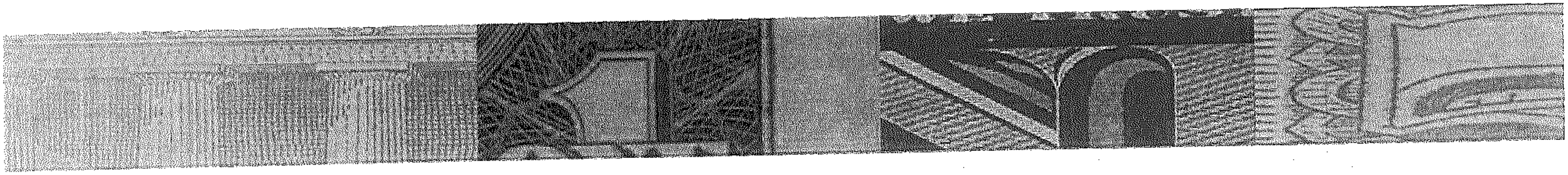


Internal Controls, continued

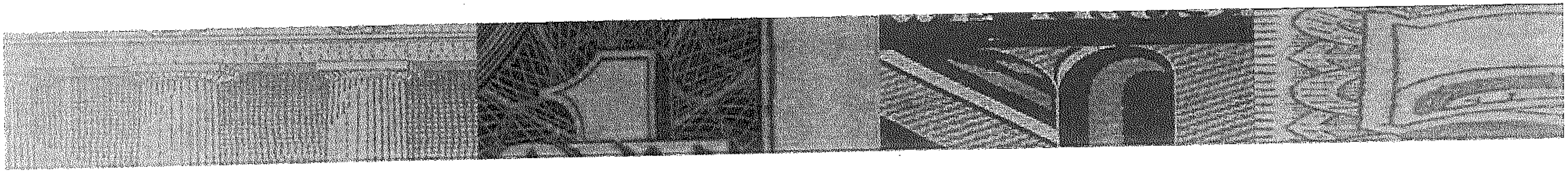
Significant Deficiency – Segregation of Duties – Access to PeopleSoft

- The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Government's assets and ensure accurate financial reporting. Additionally, access to PeopleSoft should be restricted to ensure personnel have access only to those applications and transaction types necessary for their position.
- Employees of the Government have access levels not necessitated by their respective role. Personnel have access to PeopleSoft that allow a breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions). Periodic logical segregation of duty reviews are not being performed. Additionally, there are too many Domain Administrators for the Windows Active Directory domain.
- Allowing employees to have too many privileges can be conducive to fraud or errors remaining undetected.

Internal Controls, continued

Significant Deficiency – Information Technology Systems – Safeguard and Security

- A strong information technology (IT) environment is essential to the maintenance of the electronic data held by the Government and to prevent unauthorized access to the Government's information technology systems.
- During our review of the Government's IT systems and related controls, we identified the following:
  - Password improvements are needed for access to the Government's network and access to PeopleSoft
  - Passwords are not adequately secured by all Government employees and are at times shared with other employees
  - The Government does not have a formal policy and procedure to perform network vulnerability and penetration assessments in order to appropriately identify weaknesses and areas for improvements in the Government's network environment
  - Wireless access security to the Government's network is inadequate to prevent unauthorized access to the network
  - The Government does not have a formal disaster recovery plan
- Unauthorized access to the Government's computers or network could result in the loss of data, violation of privacy rules and regulations, and losses to the Government through misappropriation of assets. The irrecoverable loss of data could compromise the Government's ability to provide the necessary financial information for reporting to the Urban County Council or the citizenry.



Internal Controls, continued

Significant Deficiency – Segregation of Duties – Change Management - PeopleSoft

- Change management is a critical component to the Government's IT security. Limiting unauthorized changes and having proper segregation of duties in place is essential to reduce the risk of implementing IT changes into production environments which could contain untested errors, or malicious codes, which could negatively impact critical IT systems.
- Our assessment of the Government's internal control policies, and procedures of the Government's ERP system, PeopleSoft, revealed an inadequate segregation of duties related to change management. Specifically, there are three full-time developers and two other personnel with development responsibilities within the Division of Enterprise Solutions; all of which have the ability to make changes and implement changes in production. In addition, we noted that a change management tracking and versioning application is not being used in order to provide an appropriate audit trail of system changes.
- Fraudulent or malicious code could be introduced into PeopleSoft without being detected which could negatively impact the Government's IT systems.

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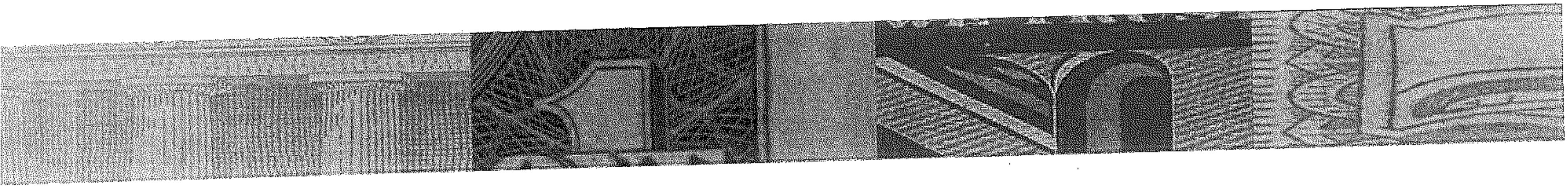

Internal Controls, continued

Significant Deficiency – Internal Control Over Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

- OMB Circular A-133 (the Circular) requires the Government to identify all Federal awards received and expended and the Federal program under which they were received. The Government is also required to prepare a SEFA for the period covered by the Government's financial statements in accordance with §___.310 of the Circular.
- The Government's internal control policies and procedures do not appropriately identify grants with Federal expenditures such that the Grants and Special Programs Division is timely involved in monitoring compliance with grant agreements and associated expenditures. In the current year, expenditures were reduced by $222,249 for expenditures incorrectly claimed and reported on the SEFA for CFDA #66.458 South Elkhorn Pump Station KIA program in the prior year. This grant was not timely identified as being funded with Federal grant monies and expenditures were claimed that were not in accordance with the federal requirements.

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Affordable Housing Trust Fund Recommendations
Affordable Housing Task Force

History of Issue:
In April of 2008 both the Social Service Needs Assessment Report and the Infill and Redevelopment Report found that there was a need for affordable housing in Lexington.[1]

In response to those reports, and information from the Central Kentucky Housing and Homeless Initiative and BUILD, Mayor Newberry issued an executive order that authorized the creation of an Affordable Housing Trust Fund Commission (Commission) to assess the extent of this problem and make recommendations that would enable an Affordable Housing Trust Fund (AHTF) to be operational in Lexington by July 2009.[2] The Commission met and issued a report (Commission Report) in September of 2008 finding that affordable housing was needed in Lexington-Fayette County and recommending the creation of a trust fund to be funded by a 1% tax on insurance premiums.[3] The resolution creating such a Trust Fund was never presented to Council because there was not sufficient support to pass.

Because of continued public interest, the issue was again brought before Council in 2010 and the Affordable Housing Task Force was created. The Task Force commissioned Commonwealth Economics to study the fiscal, economic, and social impact of a range of funding levels for a trust fund. Commonwealth Economics presented that report (AHTF Study) to the Task Force in February, 2011. In September, 2011, the Task Force presented the study to the Economic Development Committee, which referred the matter back to the Task Force to develop a proposed structure for the trust fund and a set of parameters for operation of the fund.

Definition:
Affordable housing is defined by the US Department of Housing and Urban Development (HUD) as "housing that requires families and individuals to pay no more than 30% of their income for housing and housing-related costs.[4] "Families that pay more than 30% of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care."[5]

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[1] Social Needs Assessment Report 2008, p. 8, Infill Redevelopment Report 2008, p. 16, Commission Report, p. 3
[2] Commission Report, p. 3
[3] Commission Report, p. 3
[4] Commission Report, p. 3
[5] www.hud.gov/offices/cpd/affordablehousing/

Current status of affordable housing:
In Fayette County, 17,312 households (35.8% of all renters) pay more than thirty percent (30%) of their gross household income for their rent and 8,753 households (18.1% of all renters) pay more than 50% of their gross income for housing.[6] The for-sale market in Lexington is grossly under-supplied with product priced below $85,000 for people making less than 50% of area median income (AMI). The gap is 2,103 homes.[7]

The Public Housing Plan prepared by the Lexington Housing Authority and provided to LFUCG shows that as of April 13, 2011 there were 349 families on the Sec. 8 wait list. The list has been closed since October of 2010.[8] At the same time, there were also 1,171 families waiting for a public housing unit.[9]

The 2008 Commission Report states:

> The cumulative effect of rising housing costs and shrinking incomes stresses family budgets, sometimes to the breaking point. Families with less income are disproportionately impacted by these forces, as the supply of affordable housing fails to keep pace with demand and wage increases have not kept pace with increases in housing costs.[10]

Cost of lack of affordable housing:

Economic Impact: The 2008 Commission Report found that "communities that lack affordable housing actually experience diminished economic prospects."[11]

A Lee County, FL study cited in the report found that ignoring the local need for affordable housing was costing the community more than $249 million each year.[12] "The study calculated the community costs associated with inadequate housing in three sectors of the community: lost economic opportunity, stressed transportation infrastructure, and the direct and indirect social costs related to education and health care. The vast majority of the cost to the community was associated with lost economic opportunity (estimated at $241 million each year). This included lost jobs and wages as

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[6] Commission Report, p. 5
[7] LFUCG Housing Market Study, p. 5
[8] Public Housing Plan, p. 6
[9] Public Housing Plan, p. 7
[10] Commission Report, p. 7
[11] Commission Report, p. 17
[12] Commission Report, p. 17

a result of not developing needed housing, lost economic opportunity as a result of families spending too much money on housing, and lost property tax revenue."[13] Extrapolated to Fayette County given our population, the annual cost to Fayette County is estimated at $150 million.[14]

Social Costs: Multiple studies have found that lack of affordable housing also has a social cost. In Charlotte-Mecklenburg County, it was found that "the aggregate social cost of failing to address … affordable housing needs may approach $50 million annually when considering public education, criminal justice, healthcare, and transportation costs."[15]

Student Success: A study in Louisville, KY found that the availability of safe, decent, and affordable housing has a direct effect on student and school success. Those students who moved schools and homes more than once during the year scored an average of 10 academic index points lower on the Kentucky Core Content Reading Test than students who had only one school move. Multiple movers were 8% more likely to be rated as novice (below grade level) than single movers and 10% less likely to be rated as proficient.[16]

Homelessness: Lexington has roughly 1,250 homeless in shelters and 200 homeless on the street at any given time.[17] Affordable housing prevents homelessness and associated costs more effectively than anything else.[18]

Economic Impact of Affordable Housing:
The 2011 AHTF Study found that a $4 million investment in the Trust Fund matched at the national average of an 8:1 ratio would create 470 housing units each year. This assumes that Affordable Housing Tax Credits would be available to supplement Trust Fund investments.

Funding of the Affordable Housing Trust Fund:
The Commission Report concluded the following:

- the ideal primary funding source should be a community-wide source that does not excessively target a specific market sector; and
- the funding source should be targeted to generate between $3 million and $5 million annually from a dedicated public revenue source.

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[13] Commission Report, p. 17
[14] Commission Report, p. 17
[15] Charlotte-Mecklenburg Affordable Housing Report, p. x
[16] "Moving On: Student Mobility and Affordable Housing," Metropolitan Housing Coalition, 2004
[17] Commission Report, p. 9
[18] Commission Report, p. 9

For these reasons, the Commission recommended a 1% insurance premium tax.[19] The 2011 AHTF Study indicates that a 1% increase for all insurance premiums except health care would generate $3.8 million annually and that the average cost per household would be $30.[20]

Recommendation:
Given the clear need for affordable housing and the demonstrated positive economic and social impact of a trust fund to create more affordable housing, the Affordable Housing Task Force recommends an increase in the present fee on all insurance premiums, except for health care, by .5% to create an Affordable Housing Trust Fund and fund it on an ongoing basis. This tax will generate $1.9 million annually and the average cost per household is $15.[21] The Task Force also recommends that the fund be administered by a Board as proposed in Appendix A, with the appointed administrative body charged with reviewing annually the allocation of funding and the criteria for determining projects and occupants.

In addition, to reflect the specific needs for affordable housing and the opportunities represented by increased affordable housing cited above, the Task Force recommends that implementation include the following:

1) Include language in the enabling ordinance that:
    a. Requires that projects funded benefit populations at or below 80% of AMI and no less than 50% of the funds benefits households at or below 30% of AMI;
    b. Provides for an annual review by Council; and
    c. Provides a "sunset" provision, such that re-authorization for the Trust Fund will have to be approved by Council five (5) years after the implementation of the tax.
2) Provide that the Board shall decide the additional criteria for the allocation of funds and may adjust the percentage based upon current conditions. However, the following flexible guidelines are recommended:
    A. For all funds (minus 5% administrative costs):
        30% for housing rehabilitation
        70% for new construction
    B. For all funds (minus 5% administrative costs):
        65% for rental housing

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[19] Commission Report, pp. 15-16
[20] AHTF Study, p. 16
[21] AHTF Study, p. 16

35% for home ownership

3). Have the Board adopt a strategy for use of funds that targets narrow geographic areas, so that the public investment will have the greatest potential impact on private sector investment for similar housing improvements.

4) Have the Board adopt criteria for determining occupants of subsidized housing that favors families with school-age children, to provide stability and lessen the frequency of transiency within the school-age population and its negative effects on learning and school achievement.

Appendix A: Administrative Structure (Adapted from the Commission Report)[22]

The Task Force recommends the establishment of an AHTF Governing Board to have independent authority and oversight of the Trust Fund. It shall be organized as follows:

Charge of Authority - The Governing Board shall be vested with oversight authority, and shall manage the Trust Fund independently of political influences.

Appointment - The Mayor of the Urban County Government shall have the authority to appoint each member to serve on the AHTF Governing Board. The Urban County Council must confirm or reject each appointment made by the Mayor.

Term of Service - The members of the AHTF Governing Board shall serve a term of four (4) years. The terms of the Governing Board shall be staggered in a manner required by Section 7.02 of the Urban County Charter. No Board member may serve more than two consecutive terms.

Equal Representation - The AHTF Governing Board shall promote inclusion, demonstrate fairness of process, and reflect the socio-economic fabric of the Lexington – Fayette County community. The composition of the Governing Board shall be, as nearly as possible, representative of the social, economic, cultural, ethnic and racial groups which compose the population of the County.

Composition - The AHTF Governing Board shall be comprised of thirteen (13) members. Each Member must demonstrate knowledge and experience in the affordable housing sector, and support local housing efforts. These individuals must have extensive experience in one or more of the following skill sets:

- Homelessness & Emergency Housing
- Social & Support Services
- Affordable Housing Management
- Affordable Housing Resident/Client
- 2 LFUCG Council Members
- 2 General Public at Large
- Grants Administration or Philanthropic Giving
- Housing Construction
- Commercial or Mixed–Use Development
- Property Leasing or Rental Housing/Real Estate Management
- Financial or Capital Markets

Conflict of Interest - No member of the AHTF Governing Board shall be an employee, business partner, contractor, consultant, Board member or representative (or immediate family thereof) of an organization which petitions for

[22] Commission report, pp. 12-15

funding from the AHTF. Applicants for AHTF funding will be deemed ineligible if a Board member has any such affiliation.

Meetings - The AHTF Governing Board shall meet bi-monthly, or at least five (5) times within a calendar year. A quorum must be established for an official business meeting to be held. A quorum consists of a majority of eligible voting members (7 persons). A simple majority of Governing Board members present at an official meeting is required to approve any business item on the agenda.

The duties of the AHTF Governing Board shall be:

- Establish policies and procedures for the operation/management of the AHTF
- Select an appropriate Administrative Agent to carryout the functions of the AHTF
- Oversee the financial management of AHTF funds, including all receipts, gifts, donations, grants, disbursements, accounts payable & administrative costs
- Annually monitor and evaluate the performance of the Administrative Agent
- Establish annual funding goals and priorities for housing production utilizing AHTF funds
- Annually review funding proposals from eligible applicants for AHTF funds
- Annually rank and prioritize eligible projects requesting AHTF funding
- Annually approve funding for eligible AHTF projects
- Perform housing studies, housing needs assessments, and compile pertinent data consistent with planning activities on-going through existing governmental departments and non-profit housing agencies
- Submit annual reports on the activities of the AHTF to the Mayor, Urban County Council and the community

Management/Staffing

Once the initial organization is accomplished, the day-to-day management of the Trust Fund shall be entrusted by the Governing Board to an Administrative Agent. To establish the initial structure, the initial Administrative Agent shall be the LFUCG Department of Planning, Preservation, and Development.

The duties of the AHTF Administrative Agent shall be:

- Develop a Notice of Funding Availability (NOFA) for annual AHTF funding cycles
- Develop program materials and provide technical assistance to potential applicants

- Solicit and receive funding applications for housing projects requesting AHTF funds
- Evaluate project proposals to determine eligibility and feasibility based on criteria established by the Governing Board and program guidelines
- Initiate contracts with projects awarded funding by the AHTF Governing Board
- Process and approve funding draw requests submitted by project administrators
- Monitor implementation of these projects
- Complete project close-out reports
- Monitor post project compliance requirements

The initial staffing of the AHTF Program shall consist of two (2) staff persons: a *Program Director* and an *Administrative Assistant.* The initial estimated annual administrative cost of the program, including wages & fringe benefits, is $125,000-$150,000. The personnel costs required to administer the AHTF shall be supported by the revenues of the Trust. Administrative costs will be limited to no more than 10% of AHTF revenues with the initial years targeted at no more than 5%.

Affordable Housing Trust Fund (AHTF)
History & Activity Timeline

Prepared by:
Chris Ford, District 1

Spring 2008	BUILD advocates for creation of AHTF to provide additional funding for affordable housing (particularly market rental rates)
May 2008	Mayor Newberry Appoints AHTF Commission 47 Members – Blue Ribbon Panel
Sept 2008	**AHTF Commission recommends establishing Trust Fund** Recommended Funding Source – 1% Increase Insurance Premium Tax Estimated dedicated revenue: $ 3 - 4 million annual
Fall 2008	Mayor Newberry rejects Commission's funding recommendation *Counter – proposes public / private financing partnership – to be capitalized with $250,000 LFUCG General Fund appropriation*
Fall 2009	Vice Mayor Gray Appoints AHTF Council Task Force *Initial Meeting 11-17-09; 24 meetings to date*
Summer 2010	Council Task Force issues RFP for Economic Impact Study *Awarded to Commonwealth Economics, approx. cost - $25,000*
March 2011	AHTF Economic Impact Study presented to Council Work Session *Referred to Council's Economic & Community Dev. Committee*
October 2011	Economic Development Committee Presentation *Discussion leads to reconvening of AHTF Council Task Force*
Winter 2011 – 12	Seven (7) interim Task Force Meetings
March 2012	**Formulation of AHTF Ordinance, as revised:** *0.5% increase to Insurance Premium Tax (excluding health premiums)* *Generates annual revenue of $1.9 million, with average household cost of $15* *Sunset provision for Council reauthorization at 5 years* *Appointment of 13 member AHTF Governing Board* *Beneficiary household population at or below 80% AMI* *Fund Allocation - minimum 50% to households at or below 30% AMI*

Affordable Housing Trust Fund Talking Points

- Commission created in 2008 in response to the Social Service Needs Assessment and Infill and Redev Report finding that there was a need for affordable housing
- Commission recommended the creation of a trust fund to be funded by a 1% tax on insurance premiums, a resolution was never presented to Council
- In 2010, the Council created a Task Force to study the fiscal, economic, and social impact of a range of funding levels, recommended 1% tax on insurance premiums
- "Affordable Housing" is housing that requires families and individuals to pay no more than 30% of their income for housing and housing-related costs
- Families that pay more than 30% of their income may have difficulty affording necessities such as food, clothing, transportation and medical care
- In Fayette County 35.8% of all renters lack affordable housing and 18.1% pay more than 50% of their income for housing
- In 2011 there were 349 families waiting for Sec. 8 vouchers and 1,171 families waiting for public housing units
- The lack of affordable housing:
  - Has a social cost including lost economic opportunity in jobs and revenue and direct and indirect social costs related to education and health care; in Fayette County that cost is estimated at $150 million a year
  - Has an effect on success in school; multiple movers scored an average of 10 points lower on the Kentucky Core Content Reading Test
- Affordable housing has a positive economic impact:
  - Money invested in Trust Fund is <u>often</u> matched by outside money <u>and it stimulates private investment is housing.</u>
  - Helps prevents homelessness more effectively than anything else
- Recommendations:
  - .5% tax on insurance premiums excluding health insurance which will raise $1.9 M annually with an average cost per household of $15
  - Sunset provision which requires reauthorization after 5 years
  - All projects funded benefit populations at or below 80% of AMI and no less than 50% of the funds benefit households at or below 30% of AMI
  - Annual review by Council
  - Administered by a Board that would decide target populations and funding levels with most of the money going to new construction of rental housing and favoring families with school age children

Budget & Finance Committee Referrals

Item	Referred By	Date Referred	Status
Solid Waste Costs/Revenue/Tax Structure	Gorton	2-1-11	Waste Management Task Force
Cost Per Ton; Cost Per Customer			
Impact of User Fee Structure			
Local Vendor Preference*	Gorton	10-14-10	11.29 WS
Minority/Women Business Recruitment*	Stinnett	10-7-10	Procurement Task Force
Purchasing, Procurement & Professional*			
Service Selection Process	Crosbie	9-24-10	Procurement Task Force
Activity Based Costing	Lane	1-16-12	1.31.12
Affordable Housing Trust Fund Report	Gorton	4-10-12	9.25.12 & **11.27.12**
Financial Efficiency Measures	Lane	10-16-12	

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

PAS 1-18-12