Ellinger, Chair
Stinnett, Vice Chair
Gorton
Kay
Ford
Beard
Farmer
Scutchfield
Mossotti
Henson

A G E N D A
Budget & Finance Committee
March 18, 2014
1:00 P.M.

1. **February 25, 2014 Committee Summary** (1-4)
2. **Monthly Financial Report** (5-18)
3. **Procurement Task Force – Stinnett** (19-22)
4. **Wellness Center – Stinnett**
5. **Items Referred to Committee** (23)

“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

2014 Meeting Schedule

Jan 28	May 27	Oct 21
Feb 25	Jun 17	Nov 18
Mar 18	Aug 26	Dec 9
Apr 22	Sep 23	

BUDGET & FINANCE COMMITTEE
February 25, 2014
Summary

Ellinger called the meeting to order at 1:01 PM. All members present. Clark also attended.

I. January 28, Committee Summary

On a motion by Beard second Gorton the summary of the January 28 Budget & Finance Committee meeting was approved unanimously.

II. Monthly Financial Report

Bill O'Mara, Finance Commissioner, Rusty Cook, Revenue and Melissa Lueker Budgeting provided the monthly financial report. O'Mara stated that the unemployment rate and other indicators were heading in a positive direction.

O'Mara also addressed the Code Enforcement abatement collections through January.

Cook stated that actual General Fund revenue was about $ 2.2 million ahead of the budget through January. Lueker stated that actual expenses were about $ 5.6 million below budget through January, along with a positive variance in transfers of approximately $ 840,000 for a positive variance of $ 8.6 million.

Gorton asked if funded vacant positions were being filled more quickly due to the positive fund balance. In response Lueker stated that there are still several vacancies they are being filled. She stated that she will provide more information to Council about high profile vacancies.

Stinnett discussed the current $ 8.6 million variance. He stated that doesn't accomplish the mission of LFUCG. He noted that there are numerous needs, including deferred maintenance that is not being addressed.

In response O'Mara stated that he was more conservative by nature. He stated that the positive variance enabled LFUCG to purchase more salt than anticipated. He also noted that other unexpected needs could be met with the variance.

III. Refunding Urban Services Ad Valorem Taxes

Stinnett started the discussion. He stated that we need a policy about refunds and taxing citizens for services that t5hey don't receive.

Charlie Martin stated that going forward LFUCG will not be issuing refunds, but also won't be property on tax rolls until it is certain that it will receive streetlights in that fiscal year.

Martin stated that he met with KU officials about an installation schedule and he is confident that KU can install the 400 street lights that are in the waiting period this year.

In response to a question from Ford, Martin stated that citizens won't be charged for the service until it is provided.

Stinnett asked about the installation schedule. Martin stated that it had not been finalized yet but he noted that some citizens had been on the wait list for some time and he wanted to get to those first.

In response to a question from Clarke, Martin stated that KU waits to install lights until it gets an authorization from LFUCG.

Scutchfield asked that the Council be kept informed as the project continues.

Martin also discussed other Urban Services, street cleaning and Sanitation. He noted that refunds are not offered on those services. He did say that he is investigating the compactor issue and will get back to Council regarding that service.

In response to a question from Henson, Martin stated that street sweeping is on a consistent schedule but will get her more information if warranted.

IV. **Police & Fire Pension Update**

Stinnett opened up the discussion. He stated that the current unfunded liability needs to be determined in order to manage the fund.

Scott Shapiro provided an update to Council on the pension reform and addressed unfunded liability and annual contributions. He stated that when the actuarial table was first developed after reform, the annual contribution was to be $ 20 million for a 30-year period.

Shapiro stated that when the 6 month valuation was made the annual contribution rose to between $ 21.5- $ 22.5 million. Shapiro stated that the contribution increased due to continued losses in the market, public safety payroll was increased and service and disability retirements rose by almost 150%.

In response to a question from Stinnett, Shapiro stated that the actuarial audit will be conducted annually from now on.

Shapiro stated when the reform was adopted the unfunded liability dropped from $ 296 million to $ 161 million but rose to $ 204 million due to same reasons the annual contribution needed to be raised; continued losses in the market, public safety payroll was increased and service and disability retirements rose by almost 150%.

Shapiro discussed the potential need to adjust the annual contributions based on the CAFR which is released in January-February each year.

Shapiro stated that the reforms have saved $ 23 million in the first 2 years and reduced the unfunded ability by about $ 100 million. He did say that the fund needed to be properly managed and funded over the next 30 years; and must manage payroll size and disabilities.

Kay discussed the impact on payroll growth. Shapiro agreed that as payroll grows the LFUCG contribution increases.

Stinnett and Shapiro discussed the cost for each new Police or Fire personnel. Shapiro stated that for budgeting purposes they use $ 95,000 for each new staff.

Ellinger summarized the annual contribution increase from the $ 20 million figure to the $ 22.8 million contribution.

V. Tax Increment Financing Policies and Roles

Kay introduction the issue, stating that there was confusion as to the role of the Council.

Kevin Atkins discussed the process used to identify and evaluate TIFs. He discussed the roles and responsibilities of the developer, LFUCG Administration, the Council and the State Economic Development Finance Authority. He also discussed the Master Development Agreement and the lifecycle of a typical TIF.

In response to a question from Kay, David Barberie stated that the State and local administration are granted most of the powers to administer and direct the process.

In response to a question from Henson, Atkins stated that the State does not cap the amount or number of Tiffs in a given County, but it must be new revenue from outside the area.

VI. FY 15 Links Discussion

Ellinger discussed the FY 15 links process. In response to a question from Gorton, Maynard stated that one if the improvements this year was to have a consistent reporting mechanism for each link.

VII. **Items Deferred**

On a motion by Kay, second Gorton the TIF was removed by unanimous vote.

On a motion by Kay, second Gorton the Debt Management Policy was removed by unanimous vote.

On a motion by Gorton, second Scutchfield the Parking Fee Increases fee was removed by unanimous vote.

Meeting adjourned at 2:44 PM.

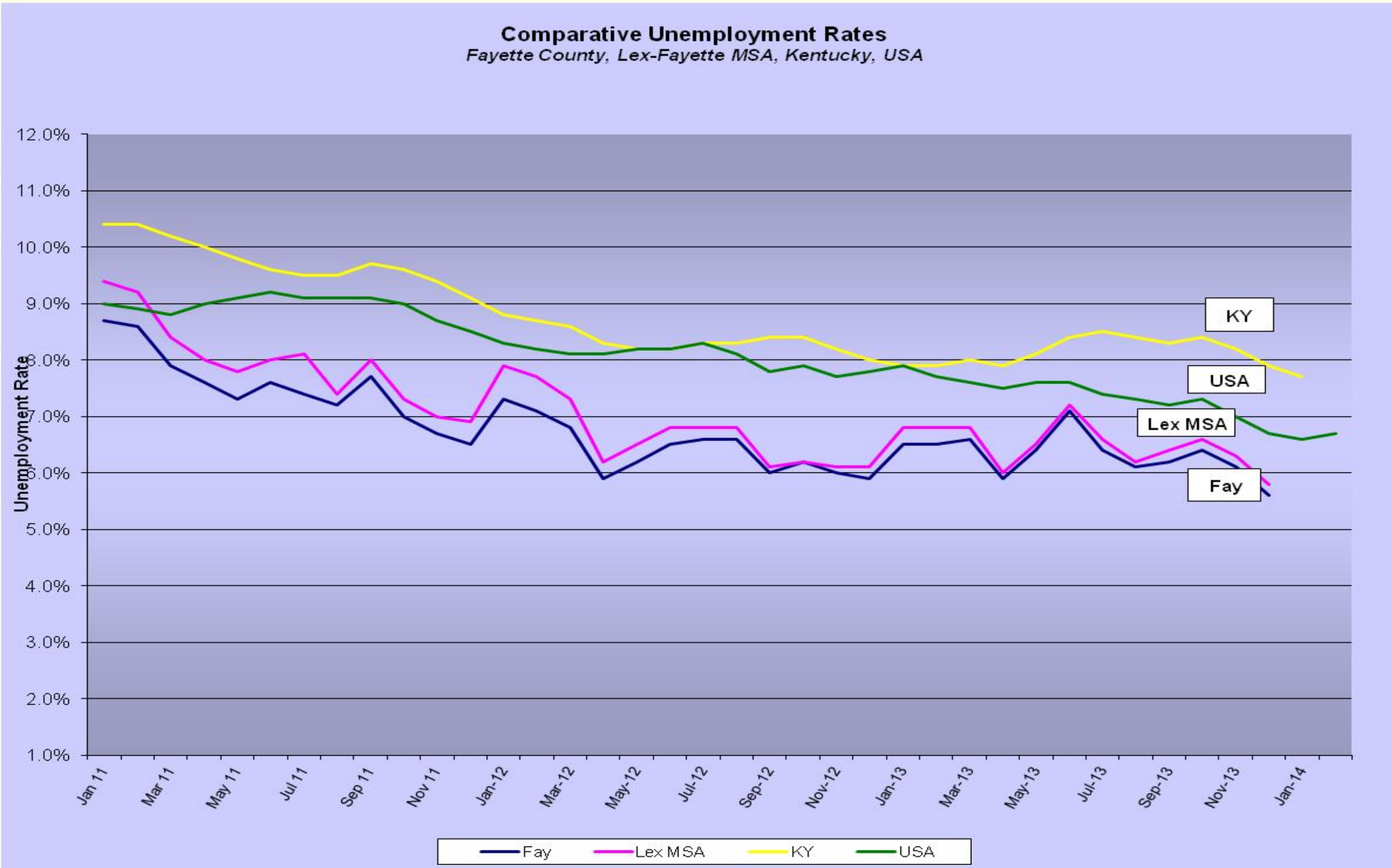
PAS 3/5/14

Budget & Finance Committee

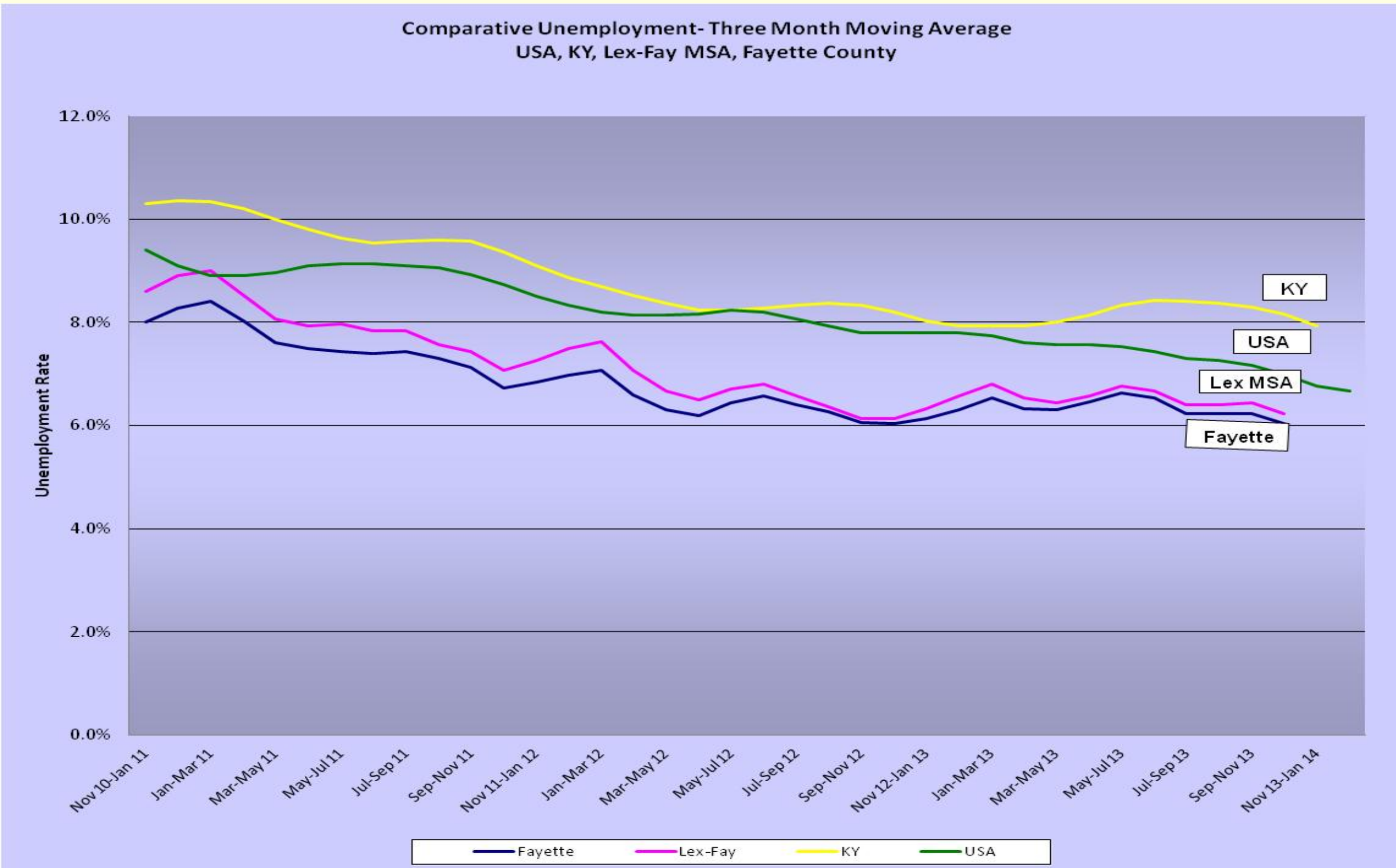
Financial Update

March 18, 2014

Comparative Unemployment Rates



Comparative Unemployment Rates Three Month Moving Average



Comparison of Economic Indicators 2013 / 2014

Comparison of Economic Indicators

Economic Indicators		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fayette County	2012	7.3%	7.1%	6.8%	5.9%	6.2%	6.5%	6.6%	6.6%	6.0%	6.2%	6.0%	5.9%
Unemployment Rate	2013	6.5%	6.5%	6.6%	5.9%	6.4%	7.1%	6.4%	6.1%	6.2%	6.4%	6.1%	5.6%
	2014	N/A	N/A	-	-	-	-	-	-	-	-	-	-
Quarterly Fayette County	2012	-	-	174,800	-	-	178,500	-	-	180,700	-	-	183,700
Employment	2013	-	-	178,300	-	-	180,300	-	-	N/A	-	-	N/A
	2014	-	-	N/A			N/A			N/A			N/A
Fayette County Permits	2012	929	903	1,169	1,220	1,544	1,492	1,218	1,609	1,064	1,244	1,257	870
	2013	1,169	955	1,131	1,299	1,781	1,490	1,692	1,411	1,201	1,294	1,163	1,359
	2014	1,157	999	-	-	-	-	-	-	-	-	-	-
Fayette County New Business	2012	183	281	373	718	371	212	209	216	210	254	178	132
Business Licenses	2013	218	258	339	634	456	222	152	218	183	285	195	164
	2014	244	280	-	-	-	-	-	-	-	-	-	-
Home Sales (MSA)	2012	400	448	632	649	783	785	864	850	676	727	673	605
	2013	511	541	758	809	984	956	1,075	1,009	829	790	725	618
	2014	524	517	-	-	-	-	-	-	-	-	-	-
Fayette County	2012	71	76	45	68	75	65	61	57	66	92	90	72
Foreclosures	2013	79	44	46	42	38	54	89	52	41	47	39	45
	2014	31	40	-	-	-	-	-	-	-	-	-	-

N/A indicates information not available.
BLS Releases Date for Fayette Co. Quarterly Employment - 6 months after quarter end

February 2014 MTD Actual/Adopted Budget

February 2014 Monthly Actual Compared to Adopted Budget

Revenue Category	Actual	Budget	Variance	% Var
OLT- Employee Withholding	22,111,783	19,215,842	2,895,941	15.1%
OLT - Net Profit	897,462	497,857	399,605	80.3%
Insurance	2,400,805	2,442,077	(41,272)	-1.7%
Franchise Fees	3,395,677	2,270,509	1,125,168	49.6%
TOTALS	28,805,728	24,426,285	4,379,443	17.9%

February 2014 YTD Actual/Adopted Budget

February YTD Actual Compared to Adopted YTD Budget

Revenue Category	**Actual**	**Budget**	**Variance**	**% Var**
OLT- Employee Withholding	112,802,708	111,233,699	1,569,009	1.4%
OLT - Net Profit	11,443,971	12,074,072	(630,101)	-5.2%
Insurance	19,786,644	19,672,135	114,509	0.6%
Franchise Fees	13,352,400	13,460,919	(108,519)	-0.8%
TOTALS	157,385,723	156,440,825	944,898	0.6%

February 2014 MTD/February 2013 MTD

Actual Monthly Compared to Prior Year

Revenue Category	Feb '14	Feb '13	Variance	% Var
OLT- Employee Withholding	22,111,783	20,054,583	2,057,200	10.26%
OLT - Net Profit	897,462	720,549	176,913	24.55%
Insurance	2,400,805	2,478,281	(77,475)	-3.13%
Franchise Fees	3,395,677	3,230,153	165,524	5.12%
TOTALS	28,805,728	26,483,566	2,322,162	8.77%

February 2014 YTD/February 2013 YTD

Actual YTD Compared to Actual Prior YTD

Revenue Category	Feb '14 YTD	Feb '13 YTD	Variance	% Var
OLT- Employee Withholding	112,802,708	109,164,545	3,638,163	3.3%
OLT - Net Profit	11,443,971	10,679,916	764,055	7.2%
Insurance	19,786,644	18,660,248	1,126,396	6.0%
Franchise Fees	13,352,400	12,427,670	924,730	7.4%
TOTALS	157,385,723	150,932,379	6,453,344	4.3%

FY 2014 Code Enforcement Nuisance Abatement/Lien Collections

Code Enforcement Lien Collections

Month	Administrative Collection Fees		Miscellaneous		Penalty & Interest		Total Collections	
	FY 2014	FY2013	FY 2014	FY2013	FY 2014	FY2013	FY 2014	FY2013
July	1,875	975	1,366	1,430	35,459	22,987	38,700	25,392
August	1,950	1,676	1,489	959	53,878	15,261	57,317	17,896
September	1,475	975	1,568	573	57,003	11,445	60,046	12,993
October	1,575	2,400	1,305	1,572	38,168	28,214	41,048	32,186
November	525	626	572	695	7,892	12,107	8,989	13,428
December	975	300	884	459	25,904	5,577	27,763	6,336
January	701	825	1,014	1,503	34,699	33,921	36,414	36,249
February	375	1,050	468	1,377	18,881	10,914	19,724	13,341
Totals	9,451	8,827	8,666	8,568	271,885	140,426	290,002	157,821

2014 Fiscal Year - Cash Flow Variance Revenue (Actual to Budget)

For the eight months ended Feb 28, 2014			
	ACTUAL	***BUDGET***	***Variance***
Revenue			
Payroll Withholding	$112,802,708	$111,233,700	$1,569,008
Net Profit	11,443,971	12,074,070	(630,099)
Insurance	19,786,644	19,672,135	114,509
Franchise Fees	13,352,400	13,460,919	(108,519)
Other Licenses & Permits	3,784,253	3,109,028	675,225
Ad Valorem	20,122,249	19,450,611	671,638
Services	15,426,395	13,049,294	2,377,101
Fines and Forfeitures	188,325	127,628	60,697
Property Sale	39,450	5,452	33,998
Intergovernmental	1,224,990	982,605	242,385
Investment Income	83,926	80,000	3,926
Other Financing Sources	100,000	100,000	
Other Income	1,782,917	893,766	889,151
Total Revenue	**$200,138,228**	**$194,239,208**	**$5,899,020**

2014 Fiscal Year - Cash Flow Variance Expense (Actual to Budget)

For the eight months ended Feb 28, 2014			
	ACTUAL	*BUDGET*	*Variance*
Expenses			
Personnel	($121,336,594)	($122,083,117)	$746,524
Operating	(22,727,885)	(27,491,537)	4,763,652
Debt Service	(24,305,480)	(24,408,321)	102,841
Partner Agencies	(10,659,148)	(12,143,887)	1,484,740
Insurance - Expense	(1,072,818)	(1,072,817)	(1)
Operating Capital Expenditures	(923,330)	(310,473)	(612,857)
Total Expenses	**(181,025,254)**	**(187,510,152)**	**6,484,899**
Interfund Transfers			
Transfers	(912,470)	(1,930,620)	1,018,150
Change in Net Position	**$18,200,504**	**$4,798,436**	**$13,402,068**

2014 Fiscal Year - Cash Flow Variance Revenue (CY to PY)

Current YTD Actual compared to Prior YTD Actual			
	Feb '14	***Feb '13***	***Variance***
Revenue			
Payroll Withholding	$112,802,708	$109,164,545	$3,638,163
Net Profit	11,443,971	10,679,916	764,055
Insurance	19,786,644	18,660,248	1,126,396
Franchise Fees	13,352,400	12,427,670	924,730
Other Licenses & Permits	3,784,253	3,429,728	354,525
Ad Valorem	20,122,249	19,529,842	592,407
Services	15,426,395	14,416,893	1,009,502
Fines and Forfeitures	188,325	250,847	(62,522)
Property Sale	39,450	130,287	(90,837)
Intergovernmental	1,224,990	934,222	290,767
Investment Income	83,926	90,526	(6,600)
Other Financing Sources	100,000	100,000	
Other Income	1,782,917	1,466,667	316,250
Total Revenue	**$200,138,228**	**$191,281,391**	**$8,856,837**

2014 Fiscal Year - Cash Flow Variance Expense (CY to PY)

Current YTD Actual compared to Prior YTD Actual			
	Feb '14	***Feb '13***	***Variance***
Expenses			
Personnel	(121,336,594)	(108,038,333)	(13,298,261)
Operating	(22,727,885)	(21,807,905)	(919,980)
Debt Service	(24,305,480)	(19,976,028)	(4,329,452)
Partner Agencies	(10,659,148)	(11,202,535)	543,387
Insurance - Expense	(1,072,818)	(1,012,284)	(60,533)
Operating Capital Expenditures	(923,330)	(952,410)	29,080
Total Expenses	**(181,025,254)**	**(162,989,495)**	**(18,035,759)**
Interfund Transfers			
Transfers	(912,470)	(822,065)	(90,405)
Change in Net Position	**$18,200,504**	**$27,469,831**	**($9,269,327)**

- Questions ?

To: Council Member Chuck Ellinger

From: Todd Slatin, Director, Division of Central Purchasing

Date: January 2^{nd}, 2014

Subject: Procurement Task Force Update

The Division of Central Purchasing has continued to work towards improving the LFUCG procurement process and address the recommendations of the Procurement Task Force which was formed in 2010.

Key developments/improvements implemented since 2010 include:

- Modifications to the procurement regulations governing personal/professional services to include a quantitative scoring method for competitively bid vendor proposals as recommended by the Task Force.
- Modifications to the procurement regulations governing personal/professional services to assign responsibility for the creation of the selection team to Central Purchasing as recommended by the Task Force
- Modifications to the procurement regulations governing personal/professional services to formally allow the use of "design-build", "construction management-at-risk" and "construction manager-agency" methods of procurement for construction related projects. These methods have been incorporated to allow the LFUCG to select the most efficient and economical procurement process for a given project. By selecting the best method of procurement the LFUCG can minimize cost, reduce change orders, minimize risk and speed delivery.
- Revision of the LFUCG Purchasing Manual to more clearly define when a change order is required for non-construction or professional services contracts.

Improvements to purchasing procedures in process:

- To improve efficiencies in the change order process as well as the consent decree implementation, the Divisions of Central Purchasing and Water Quality are recommending a tiered approach to change order approvals. This tiered approach would allow for change orders under 10% of the cumulative contract award to be approved at the divisional level and require Council approval for change orders exceeding $1,000,000 or 10% of the cumulative contract award.
- The procurement regulations in place today were adopted in 1983 and officially revised in 2003. The Division of Central Purchasing with assistance from the Division of Law has begun revising the regulations to update them.

Vendor Preferences

Degree of local employment is used as one of the base criteria in the quantitative scoring method for all competitively bid professional services projects. However, the weighting of this criterion (i.e. number of points possible) varies depending upon the nature and type of project being procured.

The LFUCG has formally adopted and established 10% of total procurement costs as a Goal for participation of Minority-Owned and Women-Owned Businesses on all contracts (professional and commodity based). Marilyn Clark, hired in 2010 as the Minority Business Enterprise Liaison in the Division of Central Purchasing is the champion of the LFUCG MBE/WBE inclusion goal. As a result, our MBE/WBE participation has grown to 9.20% in 2012 despite an overall reduction in spending and will exceed 10% in 2013.

In addition, state and federally funded projects include minority and women owned business participation requirements. The percentage required is determined by the funding source based upon the number of qualified MBE/WBE companies in the region capable of performing the project work.

Vendor Preferences (MBE/WBE) – Recommendations/Observations

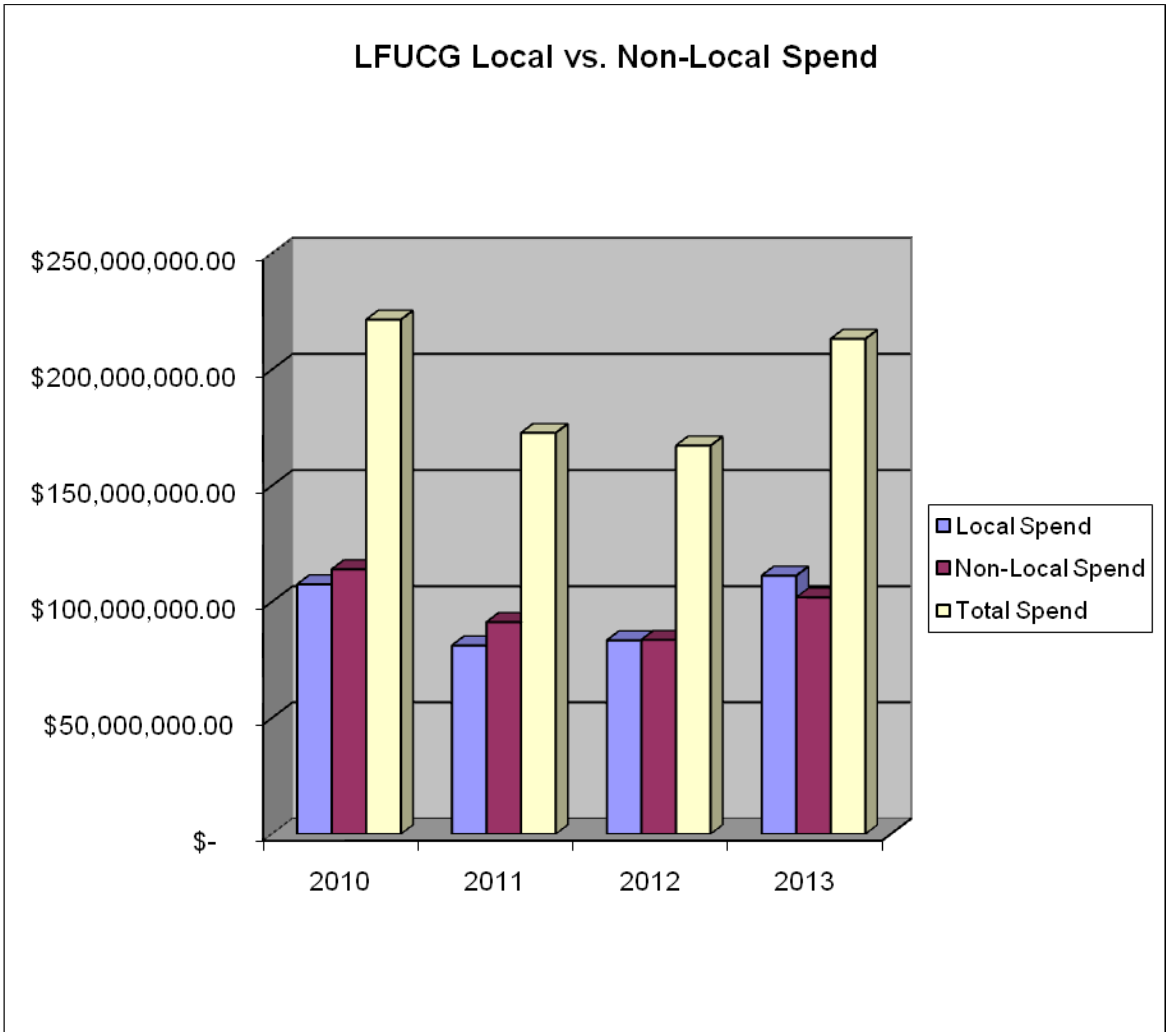
There would be significant legal issues that would arise should LFUCG try to require or mandate the 10% MBE/WBE participation level goal as it is extremely difficult to prove the factual discrimination background necessary to overcome a legal challenge. One of the methods for showing this would be a disparity study, which is a fact-based technique used to establish whether or not underutilization of minorities and women actually exists in the purchasing practices of an entity. This fact based approach must be developed and actual discrimination must be shown in order to establish the legal validity of any minority or woman owned business program.

As our participation level continues to grow and approach our 10% goal, it is the recommendation of Central Purchasing that we continue our course and attempt to improve on our existing programs.

Vendor Preferences (Local) – Recommendations/Observations **UPDATED 1-2-2014**

In 2010 the LFUCG spent 49% of its dollars with local (Lexington address) businesses, in 2011 the number dropped to 47%, in 2012 the percentage increased to 50% and in 2013 the number rose to 52%.

	2010	2011	2012	2013
Local Spend	$107,472,107.11	$ 81,311,848.65	$83,478,804.50	$111,217,822.25
Non-Local Spend	$113,911,115.75	$ 91,304,246.47	$83,677,178.83	$101,903,410.40
Total Spend	$221,383,222.86	$172,616,095.12	$167,157,995.33	$213,123,245.65
Percentage Local	49%	47%	50%	52%



Other government entities have implemented local vendor preference laws/requirements with varying levels of success. The Commonwealth of Kentucky uses a "reciprocal" vendor preference approach that applies the vendor preference law of a Non-Kentucky vendor's state to evaluate bids if such a law exists. Some municipalities use a simple percentage preference method to evaluate bids between local and non-local vendors. For example, the City of Berkeley uses the following system.

> *The City of Berkeley extends a 5% preference on bids to local business enterprises for supplies, equipment and nonprofessional services from $100 to $25,000.*
> *Bids received from local vendors will be reduced by the applicable percentage before an evaluation is made to determine the lowest responsible bidder. After this determination is made, an award will be recommended in the amount shown in the vendor's bid.*
> *For example, a local business bidding $1,000 for a pencil contract to the City would be evaluated as if it had bid $950. If the bid is awarded to the local business, it is paid the bid price of $1,000.*
> *A local business is defined as "a business firm with fixed offices or distribution points located within the City of Berkeley boundaries and listed in the Permits and License Tax paid file, with a Berkeley business street address."*

Defining the term “local” can be the most difficult part of implementing this type of preference. Is local simply defined as a business with a Fayette County address? Do businesses in surrounding counties get credit for employees living in Fayette County? Are total payroll taxes paid factored into the equation? Is a company with a sales office only in Lexington extended the same preference as a company who is headquartered here?

Potential downsides to establishing a local vendor preference program

- Reduced competition – fewer non-local companies participating in bids
- Increased cost – award to non-low bid may occur
- Increased labor – management/verification of program
- Could be viewed as a taxpayer funded subsidy

Central Purchasing will defer to the Procurement Task Force on a final recommendation but it is our opinion that a free and open marketplace results in lowest cost procurement.

Budget & Finance Committee Referrals

Item	Referred By	Date Referred	Status
Solid Waste Costs/Revenue/Tax Structure Cost Per Ton; Cost Per Customer Impact of User Fee Structure	Gorton	2-1-11	Waste Management Task Force
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/Ellinger**	**9-24-10**	**Procurement Task Force**
Activity Based Costing/Financial Efficiency	Lane	1-16-12	1.31.12
Affordable Housing Trust Fund Report	Gorton	4-10-12	9.25.12 & 11.27.12
Financial Implications of the Mayor’s Homelessness Commission	Kay	1-29-13	2.19.13
Refunding Urban Services Property Tax	Stinnett	11-5-13	
Reduce/Eliminate LexArts Financial Support In Exchange for Allowing DAC to Keep Program Revenue	Gorton	12-3-13	
Economic Development Partner Agencies	Scutchfield	1-14-14	
Wellness Center & Lease	**Stinnett**	**1-28-14**	

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

PAS 3-12-14