COMMITTEE OF THE WHOLE
April 28, 2009

Vice Mayor Gray chaired the meeting calling it to order at 1:00 pm. All council members present, except CM's Gorton and Beard.

Presentation of Debt and Capital Projects in the Mayor's FY2010 proposed budget – Acting Commissioner of Finance, Bill O'Mara

Mr. O'Mara distributed a copy of today's presentation explaining debt and capital projects as it relates to the proposed FY2010 budget. He defined general obligation bonds and gave background on 2009 saying no bonds have been issued since November 2006. Capital projects for 2007 and 2008 are still to be issued due to the economic crisis of 2008 which created an uncertain bond market. He covered the bonds that have been issued so far, which are 3 & 5 year bonds for 2007 and 2008 CIP totaling $13,520.00, 10 & 20 year bonds, $24,830.00 and issued 20 year Police/Fire pension obligation notes in March 2009. He also covered 2010 general obligation bonds and when they would be issued. He also reviewed 2009 CIP projects that were being delayed or on hold that indicated a savings of $12 million. For 2010 CIP there is $99 million requested, $27.8 proposed, plus $6 million for the Lyric from 2009. He covered 2010 capital projects, debt service projections which were included in the handout, then opened the floor to questions from council members.

CM Feigel referred to 2009 debt service for CIP bonds and asked how it will translate to 2011.

Mr. O'Mara said a portion of it will fall in 2011. The 2010 budget has some increase in revenues and they are trying to hold expenses in the general fund by looking at ways to manage at the lowest possible debt service for 2010.

CM Martin asked about details on various schedules in the handout.

O'Mara said he was ready to cover that question by showing the list of capital improvements by fund, a schedule for operating funds and what comes from the general fund. He referred to 2009 CIP bonds proposed to be put on hold plus other projects related to storm water, which work has not yet been started and funds are not committed. He pointed out an error on salt barn funding of $2 million, adding the final recommendation was to put in on hold and is not anticipated to be bonded this year. The next schedule was operating capital- FY2010 bond fund total list, showing two categories that come out of general fund.

VM Gray was curious about debt ratios and what was the projection.

O'Mara showed debt service projections estimated on assumptions and issuance of police and fire bonds. He said the estimate is based on a total of four notes. The first one for $70 million with three consecutive notes of $35 million each. He pointed out actual bond notes issued and payment obligation was listed in the presentation as debit service capacity.

CM James asked how the percent of debt service related to revenue and how the numbers were ascertained.

O'Mara pointed out the base has changed. Last years assumption was 4.9 % growth at \$273 million. However, with more information available the projection is now 3% growth at \$270 million, being back to 4.9% by 2013.

CM Martin wanted to know if plans for a new government center were included in the projections of debt service obligation. He also pointed out that the current debt service of 7.8% which was expected to be 15% by 2012, asking if \$60 million is issued for a new government center what would be the impact to debt service. He wanted to know if there was an appropriate percent of debt services for a city to carry.

O'Mara replied the estimated \$60 million for a new government center building is not included; however the 2010 budget does include \$4 million for a study or plan analysis for one. He said he could not speak to a percentage of debit service that was appropriate adding the financial advisors could better answer that question. He added there was a guide of 10% for many years, but is no longer acknowledged and would not work for projects planned.

VM Gray suggested getting information from Moody's or the S & P. He added CM Martin's comment on a \$60 million government center and its impact on 15% debt service was a very good question.

CM Lane said there may be an offset by the fact we are not funding the pension fund at a higher level and thus, a reduction to debt service.

CM Stinnett remarked about debt capacity, zero listed. He asked if \$6 million was bonds that were not issued. He also wanted to insure details of each of the project listed were made available to council members asking that each Link Committee be prepared to address projects in detail and be able to answer any questions.

CM Lawless asked if there was a standard or policy on equipment and vehicle retirement and if so, what criteria does it apply. She asked if this year's budget included sale of any LFUCG surplus property, such as parking garages, etc.

O'Mara said Commissioner Cole, General Services could provide more details on that question, but the retirement of equipment have been extended and vehicle replacement has been reduced. The cost was approx. \$6 – 10 million annually and was reassessed this year, extending criteria for oil changes, mileage etc. He is not aware of the sale of surplus property in 2010 budget.

CM Myers remarked he would like to see details on $1.5 million for solid waste office space expansion and questioned why the schedules did not list it. He also asked for specifics on a police remodeling project for $75K.

O'Mara explained there are two separate schedules, which stand alone.

Elizabeth McGee, Budgeting said they may have more helpful information on CIP details and could make that available to council.

CM Feigel asked about the debt service capacity analysis, prior recommendation of 10% based on that would we be maxed out by 2012. She asked if any new projects came though and were not budgeted would these put it over 10% or even up to 12%.

O'Mara responded any changes or new projects would have to be decided and approved by the administration and council at which time debt service capacity would need to be reviewed and considered. He added the projection for 2010 is 11%. He reminded council these figures are based on projected revenue anticipating catch up, which is part of the spike in 2010 numbers.

CM Lane said the Fiscal Policy Task Force and Merle Hackbart, with UK Martin School of Business will be coming before council sometime in May to present its final report in which many of these issues will be addressed. He asked about future estimated obligation in 2014, 2015.

O'Mara did not base debt service on listings in the presentation but rather what we are spending in 2010.

CM Lawless wanted to confirm if budget link meetings would cover specifics on capital improvement projects and provide more details.

CM James and VM Gray commented, explaining how the budget link process is designed and agreed is the way to get more detailed information on projects.

VM Gray asked about debt service capacity and wanted to confirm the schedule takes all current committed bond projects and rolls them out and wanted to know if any new projects are being added. Noting the rise in percentage does not include plans for government center or any consent decrees involving sanitary or storm water fees.

O'Mara pointed out additions (referring to schedule D of the presentation– projected debit service) and told council the projections were strictly for general fund and did not cover any future consent decrees or new government center.

VM Gray asked what the criteria are for 2010 and 2011.

O'Mara said the assumption is police/fire pension and CIP.

VM Gray what effect would these special funds have against our debt ratio?

O'Mara explained they would look at both funds and two capacities considering total revenue and total debt from all sources and at what is supporting a specific bond issue.

CM Feigel pointed out additional revenue generated by storm water or sewer bond would also be considered.

O'Mara said that was correct and numbers for general fund are more as it relates to other projects.

CM James asked it this applies for waste water, like urban services.

O'Mara explained urban services are a dedicated fund, and the total organization, any/all funds, debts, etc. would be considered.

CM Lane said studies have shown a new government center would save on operating expenses and deferred maintenance. There are layers of nuisances in the financial picture and retiring debt is an on-going process and increasing capacity. . He wanted to know total of the four bonds being issued to help fund police/fire pension.

O'Mara pointed out the presentation includes a listing of debt and payments that illustrates when those payments will begin to decrease. The total of bonds for police/fire pension totals $175 million.

CM Stinnett had a question about the analysis asking if old bonds stay in the general fund.

O'Mara explained when you got to market you decide which bond would be looked at that time in consideration of the best approach; the analysis includes old bonds issued and remains in the budget.

CM Martin remarked about the amount of debt we are taking on and how it might affect our rate. He asked if was possible to provide more information to council on this issue to help insure they are on the right footing.

CM Stinnett said he met with the bond council last year and this information was available at that time.

CM James said of last years meeting, based on information from the bond council and commissioner at the time, she felt comfortable with the percentage of debt increase.

VM Gray echoed it would be helpful to hear from rating agencies like Moody's or S & P or bond council to continuously educate ourselves. He said bigger cities such as New York were operating up to 20%, saying Lexington is operating at a much more moderate level and urged looking at this as an investment in our future.

CM Lane mentioned Physical Policy Task Force saying there is an analysis on this issue included in the report. He said that presentation is tentatively scheduled for May 12, 2009 work session.

CM Blues asked Mr. O'Mara for an electronic copy of today's presentation.

Motion to adjourn passed, meeting adjourned at 1:59 p.m.