

Lexington-Fayette Urban County Government Council Meeting
State of the Merged Government Address
January 25, 2011

The Council of the Lexington-Fayette Urban County Government, Kentucky convened in regular session on January 25, 2011 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 Ellinger, Farmer, Ford, Gorton, Henson, Kay, Lane, Lawless, Martin, McChord, Myers, Stinnett, and Blues. Absent were Council Members Beard and Crosbie.

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

* * *
Good afternoon.

Thanks to all of you for being here. Vice Mayor Gorton, Council Members, members of the Lexington Forum, citizens, thank you.

You know, first few days in office, people have asked me a lot, “How’s it goin’?” Well, 25 days in office, 25 inches of snow, and 25-million-dollars short. It’s going great!

Now those numbers are off a little, but it certainly seems that both snow and the shortfall are piling up on us. Heads up: there’s a lot to get through, and I already know my brother will tell me that I talked too long. I’ll do my best, but buckle your seat belts and hold on for a few minutes!

Today is my day to report to the citizens of Lexington about what their local government has been doing and, is going to do. I’m going to talk about our problems, but I’m also going to talk our potential. I’m going to talk about reducing costs *and* making investments. Because just like any good business, to protect, preserve and build a great brand—like Lexington--we must do both! I’m going to throw open the doors and the windows of city hall, and welcome everyone in to an unvarnished view of the *current* condition. And I’m going to talk about our focus for the next four years on creating jobs, running government efficiently through The Fresh Start plan!

Today, I want to enlist all of you in the process of making Lexington a Great American City. Last week, about 80 citizens who served on our Transition Work Teams turned in their reports. All of us can learn a lot from these reports, and they’re now posted on-line to give everyone an opportunity to look inside government. They represent a free flow of ideas from citizens to their government about the work and

needs of our government. Ideas are the DNA of everything that's important, and there are many good ideas in these reports. Some of them are also found among the 77 action items in the Fresh Start Plan, and some expand on ideas in the Fresh Start Plan. Clearly, the city can't tackle all of these ideas, but the work of these citizens will be available as a resource to the community.

I want to thank all of the transition team members and Chris Frost, who led this effort. Chris is here with us today, let's recognize Chris with a well deserved round of applause.

Making Lexington great isn't just up to the Mayor. It isn't just up to government. It is up to all of us – working together – to see our city reach its fullest potential. So, for the next few minutes – and the next few years - we'll be asking a lot from all of you. Lexington needs: Your commitment. Your ideas. Your hard work. And your advice. To participate effectively citizens need to understand the challenges their city is facing, and our opportunities for a brighter future.

So, let's talk about those now.

I'm sure you've heard the saying, "It's hard to see the forest for the trees." That means it's sometimes really hard to see the big picture. It's often tough to separate the important from the unimportant and identify and focus on what's really essential. Today, part of my challenge is to separate the forest from the trees as it relates to several issues facing our city. In the case of our city budget - *lots* of "trees" - can be really confusing. Understanding government finances has become just about as hard as understanding the work of Wall Street traders who deal arcane financial instruments. There are so many confusing "trees" in the way, most citizens can't see the "forest" - in other words, they don't have a clear picture of our city finances. But the bottom line is really simple: local government spends more than it takes in. If city government were a business, we would be in real trouble. I don't want to say broke, but bad trouble. We must cut expenses! Our city's budget includes:

- Services we can't afford.
- Pensions, employee overtime, sick-time costs we can't afford.
- Inefficiencies we can't afford.
- Health care costs we can't afford.
- Buildings we can't afford.

- And a recession no one can afford!

Last year, in putting together a budget, *some* cuts were made, but basically government crossed its fingers and predicted the economy would be better by now. Well, ask folks who are out looking for a job, or ask anyone in business here in our town. Here we are a year later, and it's not much better. Take a look at the newspaper, last Thursday's edition, "*Home Sales Remain Down.*" One of my immediate tasks will be cutting our current budget, which ends June 30. To balance the budget, we will need to make adjustments totaling between \$11 and \$16 million dollars. Then, as soon as we get finished adjusting this year's budget, we will start in on next year's. Again, it's going to require that we cut expenses. I've formed a work group including people who have been among the top leaders of our state in public sector budgeting and finance. They will offer guidance on developing our long-term financial plan.

But let's get back to the big picture: Citizens don't really need to understand *all* the details of the budget, but we should understand the bottom line: City revenues have been in a steady decline, year over year, since 2008. That's three years running the longest period of decline since the creation of our merged government. And we predict only a very modest increase in revenue next year. The economy has reset itself. Our old expectations about economic recovery and corresponding increases in city revenue aren't working this time. Runaway pension and benefit costs that far exceed benefits offered by the state of Kentucky and most cities across the country are compromising our community's ability to invest in the future.

To begin to control costs we are starting a system of zero-based budgeting. That means we will examine all expenditures that local government makes, and determine whether it's justified; and whether it should stay the same or be dialed up or down. Like any good business, we must always focus on reducing our costs. But to succeed we must also grow our economy. As I look back on the recent election, I think the real reason I was hired by you, the citizens of Lexington, to be mayor was because, as a businessman, I know something about how to grow our economy. To grow our economy and create jobs we must be competitive in all arenas. We can't dismiss any opportunity.

Job growth is the key priority in my Fresh Start Plan. My first step will be to turn up the heat on our fundamental economic development strategy. We need a focus on

economic innovation. Let me explain: *50 years ago*. Think back. Enormous economic energy was created by IBM's move here in the 1950. *25 years ago*. Think back. Think about the economic tidal wave that came with the opening of the Toyota plant in 1987. IBM. Toyota. Historically, they represent much more than economic development. They represent economic innovation. Today's economic innovations are organic, and are often fired by University of Kentucky brainpower and fueled by entrepreneurial imagination. But they hold the same promise as IBM and Toyota.

There is no better example of economic innovation in our town today than the new Albert B. Chandler University of Kentucky Hospital. The new hospital is already redefining the importance of health care to our economy – and it hasn't even opened yet. Dr. Michael Karpf took what he found when he came here - just *seven* short years ago - and altered the landscape of health care in Kentucky, literally, with a new hospital facility that defines our city's horizon, and figuratively, in terms of its impact on our economy. Like IBM and Toyota, the impact of this new hospital, through the jobs it creates in health care, research and beyond, will be felt in our economy for generations, and in ways we have yet to imagine.

But in order to make our city a center of economic innovation, we must keep growing our quality-of-life infrastructure. Now I say infrastructure deliberately - why? These days, people and businesses can locate wherever they can set up a computer terminal, and as we know, with a laptop, that's anywhere. Today, we're not competing with other university cities over raw materials or transportation or cheap labor. We're competing over quality of life. It's quality of life that is often the difference between convincing folks to locate here, and losing them to another city. And Government plays a mission critical role in defining quality of life. To successfully compete, Lexington, like any progressive business, must build its brand - its quality of life - by leveraging its assets and making investments.

All successful businesses recognize there are times when you have to save money to make money - cut costs; And business men and women recognize there are times when we have to spend money to make money by investing in the brand. In recent years, as a community, we've made some quality-of-life investments in the Lexington brand. For example, recreational trails, downtown improvements and funding

for the arts and to protect our landscape through the PDR program - all of these add to our quality of life, while attracting private investment to our city.

But other investments are needed if we are to come out of this recession stronger on the other side, more competitive and more compelling as a city. We can build a Great American City! And there's a lot of work to do, but I know you all - you're good at rolling up your sleeves, and it's going to take all of us to make this happen. We need citizen input and citizen resolve. We need to dream big.

Think back for a minute to Henry Clay. He believed in building a Great American City, not just a hamlet or a town. His dreams were national in scope. His goal was excellence, not just getting by. Our big dreams include seeking private sector support for our quality-of-life infrastructure. And if you're thinking that I'm just a dreamer who has lost his mind, talk to David Adkisson, who, as the very young Mayor of Owensboro from 1988 to 1995, had a dream to build a fine performing arts center in his town. David had big dreams, but no money. That didn't stop him. He had architects prepare a design - not much more than a picture - and that picture was carried in the local newspaper. A 92-year-old retired school teacher named Queen Cannon, a woman who had lived a very quiet, frugal life, saw the picture and was inspired by the Mayor's bold plan. It seems her parents left her \$50,000 before the Depression and she had never touched it. She gave \$3 million for the new center. In the end, David raised \$10 million in private funds for the community's RiverPark Center. David, now a Lexington resident and president of the Kentucky Chamber of Commerce, is here with us today. Thanks for your leadership.

I also like to tell the story about another dreamer, Walt Disney. After his death, on the occasion of the opening of Walt Disney World, his brother Roy reportedly expressed his regret to Walt's widow Lillian that Walt had not lived to see Disney World. "Oh, but he *did* see it," Lillian said. "That's why we are here today." He *did* see it, just as Henry Clay saw Lexington as a Great American City.

So where do we start? What sort of dream is essential to building a Great American City? First, by activating and amplifying our urban core. From the East End and the restored Lyric, to Jefferson Street, to North Lime, to South Lime, to the Distillery District, to Victorian Square, to Cheapside, the Farmers Market and the History Museum, there are signs everywhere that downtown is ready to move to the next level.

There's even news that there's a grocery store coming to downtown, something people have been talking about for decades! It's clear - there's no time to waste.

We need to do everything we can to encourage that development, and that will require investment in our quality-of-life infrastructure. Let's start right here. Our Civic Center—and it has the right name, in many ways, it *is* at the center of our civic life—many people believe the Civic Center's arena and the convention complex need a total redesign and renovation to bring the facilities up to competitive standards. It needs to be the best; state-of-the art. Making it the best is a responsible investment in our Lexington brand. It needs to get off its island and become integrated with our downtown. It needs to be a part of and not apart from our downtown. This change was called for ten years ago in our Downtown Master Plan. If ever there was a case of it literally being hard to see the forest for the trees, this is it. Once those trees came down in Triangle Park, the isolation of the Civic Center became clear, as did the missed opportunities and enormous potential of the blocks and parking lots surrounding Rupp. We need to consider expanding the Civic Center's scope and perhaps redefining it, and the area around it, as an Arts / Entertainment / Business / and Sports District.

The improvements needed at Lexington Center will not wait very long. A mayor, the Council and civic leaders must actively engage and manage the emerging challenges any city faces. If we do otherwise, especially on an issue like this, we're just sticking our heads in the sand - the ostrich method of management isn't the job I signed up for. Our community needs to understand the cost, the time frame and the options, and I'm asking private business to conduct a study so we can get our arms around what's possible. This study would be financed through private donations. The work would be chaired by a Lexington civic leader and local businessman and the members of this committee will be announced shortly.

Two blocks to the east, there's another patch of ground with enormous potential and significance - Centrepointe. Now, everybody knows that I have challenged the proposed development there. A lot of citizens have opposed The Centrepointe plans, as well. But I am pleased to say a dialog has been opened on Centrepointe between my administration and the developers. Yesterday, Jamie Emmons and Geoff Reed from my staff met with Dudley and Woodford Webb. We are ready to work with them to help create a project on this unique and historic site that affirms the rich 235-year history of

our city and values our authentic past, while demonstrating our creativity, imagination and its claim on the future.

These two sites at the heart of our community - Centrepointe and the Civic Center - are connected by more than just Vine and Main Street. They also are along what were once the banks of Lexington's Town Branch. Our city needs to take another look at the plans for a water feature as part of our downtown. It was a great idea; watersides in cities represent a competitive advantage, and we should not abandon the idea.

What else is on our "to-do" list in developing our quality-of-life infrastructure? We must realize the promise of the Distillery District and link it to the Civic Center and downtown. Scott Terrell, the conductor of the Lexington Philharmonic, dreams of a new concert hall as he works to take our orchestra to new heights. Stephanie Pevac, the new leader of the Lexington Art League, dreams of a new downtown outpost for the Art League, and maybe a Contemporary Art Museum.

If the dreams of Scott and Stephanie seem too big for us, think for a moment about Everett McCorvey, the Director of Opera at UK. Who would have thought UK could become a national center for excellence in opera? Everett McCorvey did! He is attracting many of the best voices in the country and his students are building a record of success within the nation's professional opera companies.

Finally, in terms of infrastructure, we know there is a continuing and pressing need to provide more affordable housing in our community, and we must find a reliable funding source.

Before I close today, I want to update you on steps we've already taken to begin implementing the Fresh Start Plan. Officially, today is my 24th day on the job as your Mayor. As I said earlier, it's my day to tell Lexington citizens what I've been doing. So what have we done so far to get our city off to a Fresh Start? We've moved the Mayor's Office from the top floor to the first floor of city hall. The impact of that simple change has been a surprise. The message our first floor office sends is one of openness and transparency. That message is symbolic - *and* it's more than symbolic. Councilmembers and citizens stop by the offices to offer suggestions or ask questions, yes, and to complain. The Mayor's Staff works together easily and, with no barriers to communication, problems are quickly resolved - well, more quickly resolved. And just

for the record, when it was on the 12th floor, the Mayor's Office occupied 8800 square feet. Compare that to the 2640 square feet we use now - roughly two-thirds less space.

We've restored the position of Chief Administrative Officer through the appointment of Richard Moloney, a former councilmember with management experience at the state and local levels. Every Friday afternoon you can find Richard making his rounds - going office to office to talk with employees. They're the backbone of the government and we need to make sure we hear their ideas and suggestions. We've restructured the Mayor's Office, and, as part of these changes, we are contracting with the Downtown Lexington Corporation to manage special events. We've made Preservation, Planning and Economic Innovation a cabinet-level position through the appointment of Kevin Atkins, Chief Development Officer. With his 23 years of experience working in Senator McConnell's Kentucky offices, Kevin is a phone call away from *anybody* in our state, in Washington, and beyond.

We will, of course, work with the private sector and UK as partners in economic development, but today the Council and the Mayor must take a hand in advancing the economic development strategies for our city. We can't out-source this responsibility - it is our responsibility. To engage the Michael Karpf's out there, I'm creating a Jobs and Economic Innovation Roundtable to gain the perspective of those on the front lines of business, from the people who drive our economy today, to the start-up entrepreneurs who will shape our economy tomorrow. Kevin's appointment, and the appointment of Geoff Reed, who for seven years has worked in Representative Ben Chandler's Kentucky offices, demonstrates the bi-partisan approach of this administration. Because of my background in business and the importance of creating good jobs, I will work arm-in-arm with Kevin, who will report directly to me.

We've called for a thorough examination of the jail's management, policies and procedures to ensure that we have the best management practices in place there. Sheriff Kathy Witt is assisting through an examination of the facility, and her involvement is greatly appreciated. We expect to receive a report on the jail from the Kentucky Human Rights Commission. That report was requested early last year, and it will provide additional information. The Detention Center is clearly vital to the safety of our community. I recognize that it is a tough environment to work in, but it must meet the highest standards.

In February we'll be breaking ground on the construction of Clays Mill Road improvements. Work on this project began three Mayors ago, during the administration of Pam Miller! At long last we are digging in and beginning construction. A wider Clays Mill is overdue, but it's on the horizon. And work will begin soon to reconfigure the intersection of New Circle and Harrodsburg Road to improve safety and reduce accidents. Now, traffic will always be irritating. But there are improvements we can make, technology is changing, and so should we.

Now, I'm not a know it all. For 38 years I looked to experts for many engineering disciplines in my business. In traffic, there are signaling experts. While we have considerable expertise on that here with our government staff, it always helps to have an outside view. We need to hire a signaling consultant to work with our traffic engineers and look for new solutions to our problems.

Likewise for traffic talk about two-way streets. We've jabbered and jabbered about it forever, let's put it to rest. My view is simple: our downtown will never be the economic engine it must be if it's just a pass-through, pretending to be an interstate. South Lime's construction proved more than it cost \$7000 a foot. It proved we can adjust traffic patterns even when a whole street is shut down for almost a year!

Now, soon I will be taking a page from Atlanta Mayor Kasim Reed and creating a commission to find a way to address our runaway pension problem. We added \$100 million into our pension fund in the last two years, and we still have a big problem. It is important that we keep the pension promises made to current employees, but we have failed in our efforts to cut back pension benefits for future employees - folks we haven't even hired yet - even though our benefits exceed those offered anywhere in Kentucky. Now, take a *deep breath* with me, if we don't adjust benefits for future employees we will find ourselves laying off employees and closing facilities. It has happened in many cities, and it could happen here. As Mayor Reed says, "It is time to begin having the types of mature and honest conversations necessary to deal effectively with the new economic realities we are facing as a nation. We simply cannot keep kicking the can down the road."

Yes, we're living in tough times today, but also times of opportunity. But my remarks today can be summed up pretty quickly: We've got to stop eating our seed corn. In other words, we've got to cut government's appetite today so we can save

precious kernels and invest in our community's future. And when we're investing in the future, we must reach for excellence.

We can rise, lift and fly as high as the Henry Clay's aspirations set for this community. Let's do it for future generations - our children and grandchildren. Representatives of those future generations are here with us today, and they're fascinated with - and curious about - all that's happening in our city.

Last year, along with Council Members Andrea James and Tom Blues, I heard from students at Winburn Middle School, who were designing projects for the Centrepointe block. With us today are students: Jazmine Fields, Rainele Jackson, Mukendi Kalala, Rayne Palmer, and their teacher, Michele Davis.

Recently, a group of students from Montessori Middle School contacted me. They're studying ways to improve our downtown and learn more about businesses. With us today are: Alston Croley, Drew Shoaf, Emily Cook, and their teacher, Amy Sither.

And then there's Julia Glenn, a student at Morton Middle School. Julia wowed the crowd at the Martin Luther King Day breakfast earlier this month in an essay she wrote entitled, "What is Unity?" Julia is here with her father, Charlie. Let's recognize Julia and our other students, teachers and parents with a round of applause and then I want to read a small portion of Julia's essay. Would all of our students stand? Now here's part of what Julia wrote about unity. "Even one community can make a global difference. It's true! But what we need is effort, community commitment and unity. All it takes is a small step to end in global change. So let's start! As you can see, unity is more than a concept, it's a community commitment."

What an inspiration! And what a statement of mission and purpose for all of us, going forward. Julia, Thank you. And thank all of you for all you do for our city!

* * *
The Council adjourned at 12:45 p.m.

Clerk of the Urban County Council