



Lexington-Fayette Urban County Government
OFFICE OF THE MAYOR

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2010 Budget Address

By Mayor Jim Newberry

Introduction

One year ago, I came before you and said, “For the city of Lexington, the times call for belt-tightening, living within our means and focusing on fundamental government services that are the heart of any local government’s mission.” As true as those words were last year, they are even truer today.

Whatever circumstances may confront us during the next year, we will keep moving Lexington forward. We will continue managing LFUCG finances responsibly while continuing to find ways to do the business of local government faster, better and cheaper. We will continue to tackle the tough problems that have kept LFUCG from being able to effectively serve its citizens. We will continue to make investments in our local economy so our citizens can find jobs and our local economy can move forward at a more rapid pace. With the investments we have made in economic development and quality of life initiatives, Lexington will emerge from the recession stronger than ever before.

To accomplish those goals, today I am presenting what I am calling a “Back to the Basics Budget.” This budget eliminates some expenditures which have been longstanding parts of LFUCG, but it focuses on maintaining basic services, especially in public safety. The Back to the Basics Budget totals \$470,446,352, including a General Fund budget of \$274,307,309. This budget honors the commitments set forth in our police, fire and corrections collective bargaining agreements, and it funds the debt service on the bonds sold to fund the police and fire pension plan – an obligation that had been neglected for decades. This budget also honors the commitments required by the consent decree with the EPA to clean up our streams and waterways. Unfortunately, as we focus on the basics, this budget cuts a number of good programs and requires the elimination of a limited number of jobs currently filled by good employees.

As has been the case each of the prior years of my administration, the budget which I am presenting today is the collective work of many individuals, including the folks in the Budget Office and the division directors. I want to say thanks to them for their hard work on yet another difficult budget. The citizens of Lexington

should know that we have a number of highly dedicated employees who have been asked repeatedly over the last three years to challenge the status quo and find ways to do more with less. With their help, we have met that challenge once again in this budget. In addition, I must again thank the commissioners – Logan Askew, Tim Bennett, Kimra Cole, Marlene Helm, Linda Rumpke, Cheryl Taylor and Mike Webb – and Chief Information Officer Rama Dhuwaraha for their splendid work in finding ways to reduce expenses while maintaining service at the highest possible level. Finally, I want to say thanks to both Senior Advisor Joe Kelly and Chief of Staff Shaye Rabold for helping me to sort through all of the tough issues created by the national recession.

Revenue

Before discussing our projected expenses and some of the overall impact of the decisions reflected in the budget, let me begin with a discussion of our general fund revenue projections. Revenue Director Bill O'Mara led our effort to make internal projections. Those projections were then reviewed by two respected economists from the University of Kentucky – Merl Hackbart and Ken Troske. The end result of both the internal and the external assessments was that in FY11, we could reasonably anticipate general fund revenues totaling approximately \$264 million from annually recurring sources. For purposes of comparison, you may recall that our FY10 adopted general fund budget totaled more than \$280 million.

As the chart reflects, if this revenue projection proves accurate, it will be the third year in a row that general fund receipts are less than the prior year's receipts. Prior to FY09, only once in the history of Urban County Government had general fund receipts in any fiscal year failed to exceed the prior year's receipts. We are in the middle of the second year where receipts are not going to exceed last year's receipts, and our projections for FY11 call for a third consecutive year of declining revenues in our general fund. Not only are payroll and net profits tax receipts projected to be lower in FY11, but so are property tax receipts as a result of decreases in property tax assessments. So clearly, there has never been a more challenging time for a Mayor to prepare a budget and for a Council to consider it. Not long ago, I heard someone say, "What is, is. Deal with it." So, we will, just as we have the last couple of years.

However, we will not deal with our revenue shortfall through the implementation of any tax increases. Lexington taxpayers are feeling the brunt of the national recession, and we do not need to increase taxes to get through this next year. In fact, there is one tax we ought to decrease – the minimum net profits license fee.

Our revenue projections assume a change in the net profits license fee. In connection with this budget, I am proposing that we change the \$100 minimum business license payment effective in FY11. Under the current arrangement, businesses must pay a \$100 license fee in November or December prior to the beginning of the tax year in which business activity is conducted in Fayette County. In April following the completion of the tax year, businesses file a return on which they can claim a credit for the \$100 payment. Originally, the current arrangement was designed to help with compliance by identifying potential taxpayers prior to the start of the tax year, but in short, it has not worked. Compliance levels are basically unchanged.

So, if it doesn't work, we need to fix it. Under my proposal, no payment will be required in November or December prior to the applicable tax year. The minimum license fee will be due in April, the same time businesses file their returns for the prior year. Further, there are certain businesses that have very limited activity, and frankly, it makes little sense for us to try to collect a very small net profits license fee from them, so I am proposing a business activity test for individuals with less than \$4400 of gross receipts in order to exclude individuals with limited income from having to pay the net profits fee. We estimate that this change

will exclude about 3,000 individuals from paying the net profits fee and will eliminate our need to attempt to collect taxes from those individuals whose tax obligation is less than the cost of trying to collect those sums. In FY11, we believe the fiscal impact will be the loss of approximately \$125,000.

Instead of raising taxes to balance the budget, we have used new technology to achieve greater efficiency and to save more of our taxpayers' money, and we have used one-time revenue to bridge the gap between the cost of our city's vital needs and the projected FY11 revenue. While the use of non-recurring revenues to pay recurring expenses is not an approach to be used repeatedly, non-recurring revenues can occasionally be used to bridge the financial gap until recurring revenues are restored to levels closer to historic trends.

Recent economic news strongly suggests that FY11 will be the time when we see our revenues begin to rebound from the worst recession in 80 years. In fact, last Friday's New York Times reported that the nation's recession is over and that the "American economy appears to be in a cyclical recovery that is gaining strength." Similar reports can be found elsewhere, so I believe that FY11 will ultimately prove to be a time when our long-awaited national and local recovery begins.

Thus, in FY11, I am proposing that we bridge the gap between today's revenue shortages and the better days ahead by bolstering our recurring revenues from five non-recurring sources. First, thanks to some persistent and extraordinary work by Social Services Commissioner Marlene Helm, members of the Division of Family Services staff and our external auditing firm, we have determined that LFUCG is eligible for \$2.7 million in additional Medicaid revenue as a result of low patient reimbursement rates for FY04-08 which we believe we can realize in FY11. Second, Finance Commissioner Linda Rumpke and Revenue Director Bill O'Mara believe that aggressive revenue collection efforts during FY11 should yield one-time tax revenues of approximately \$1 million. Third, we believe that we can sell \$4 million worth of surplus real estate during FY11. Fourth, we are projecting a \$2 million carryforward at the end of FY10 that can be applied to FY11 operating expenses. Last, although I have resisted it previously, it is time to tap into the Economic Contingency Account at the end of FY10 in the amount of \$5.87 million so that amount can be carried forward into FY11 to address the shortfall. Those five, one-time sources of revenue totaling about \$15 million will enable us to address the important basic needs of our city during FY11.

While I do not like to use non-recurring revenues to pay recurring expenses, I consider this approach to be the best of several bad alternatives, particularly in light of signs that the national economy is now in a recovery mode. Rest assured that throughout FY11, members of our administration and I will continue to identify ways that we can operate more effectively and efficiently with the goal of spending the minimal amount necessary to deliver the basic services that Lexingtonians expect of local government.

In the end, our general fund revenue remains highly concentrated in receipts from licenses and permits tied directly to the economy. While this over-concentration has made the last few years difficult as the national economy has slid into a recession, we should see improvement in our revenue once the national economic trends shift into a more positive direction.

Outside of the general fund, we project slightly more than \$36 million in the Urban Services Districts Fund and almost \$12 million in revenue from the Water Quality Management Fund – resources that will enable us to take major steps forward in continuing to improve our local environment as we are better able to manage our waste and water issues more effectively.

Expenses

In addition to the revenue side of the budget, the expense side merits discussion today. As you may remember, our FY10 general fund budget totaled \$280,181,430. We knew that FY11 would bring increases in our police, fire and corrections collective bargaining payroll obligations of about \$5,000,000, and it would bring an increase of debt service in the amount of around \$4,700,000, most of which is attributable to our efforts to secure the pensions owed to our police officers and firefighters. In addition, utility expenses are projected to increase by approximately \$560,000. So before considering any other required increases in operating expenses, we knew we would have to expend \$290.5 million just to keep up with the services funded in the FY10 budget plus the collective bargaining obligations, the pension bonds debt service and utility charges. When compared to projected revenues of roughly \$269.5 million, we had a \$21 million shortfall to overcome.

Fortunately, back in January, our expense reduction plan started the process of lowering our expenses, but even after making those reductions, the task of bringing the FY11 budget into balance was daunting.

Some may say, "Just cut expenses. Local government is too bloated." While that approach has some superficial appeal, about 69% of our FY11 budget is comprised of personnel expenses and about 13% is comprised of operating expenses. In light of expense reduction efforts in the preparation of both the FY09 and FY10 budgets and in the aftermath of the mid-year expense reductions imposed in January of this year, operating costs have been reduced to the point where, in some cases, further reductions would be counterproductive. Why have police officers if we don't buy enough gas to keep them on patrol? Why have pools open at our parks if we don't buy the chemicals to keep them safe?

If we simply tried to address the \$21 million shortfall by cutting personnel expenses, we would be required to lay off about 350 employees, probably 50% or more of whom would be police officers and firefighters. That approach would not yield a good solution for either the local economy or for the intermediate and long-term future of LFUCG. Under the LFUCG layoff rules, we would have lost some of our finest employees – employees who in many instances have been the beneficiaries of extensive training paid for by our taxpayers. Reductions of that kind and magnitude would cripple local government's ability to maintain public safety, and to address the other basic needs in our community.

So, we made extensive efforts to cut non-essential operating expenses and to eliminate all non-essential positions, and as a result, we have achieved operational savings in all six departments other than public safety totaling slightly more than \$7 million - an amount equal to almost 9% of the FY10 adopted budget for those departments. These savings have enabled us to maintain our police and fire staffing levels at a time when many cities across the country are having to layoff highly trained firefighters and police officers.

Here are a few of the more significant expense reductions proposed in this budget:

- Avon Golf Course will be closed during FY11. The closure results in the elimination of one full-time and 13 seasonal or part-time employees, and we expect to realize annual savings of \$40,000. Although we do not have hard data, anecdotal experience suggests that 50% or more of the patrons at Avon are from outside Fayette County, and only 6% of the rounds of golf played at LFUCG courses are played at Avon. In these times, that expense cannot continue.
- The Winburn Community Center will be re-programmed to provide a more focused, academically challenging program funded as an extended school program. We intend to continue programming for the Winburn neighborhood and provide more of an educational focus for the youth that are involved. This re-programming will save \$117,000 in general fund support and will result in the

elimination of one full-time position and 12 seasonal or part-time employees, some of whom we believe will be able to be employed in the rejuvenated program.

- Two underutilized pools – those at Berry Hill and Constitution Park – will be closed for a savings of \$60,000.
- As a result of operating efficiencies associated with the implementation of our computer software, we are able to eliminate a total of 10 jobs in our Finance and Administration Department. The annual savings will be about \$846,000.
- By virtue of reaching an agreement with the Fayette County Public Schools to operate our food service program at the Day Treatment Center and the Family Care Center, we are able to eliminate another 5 jobs and some hefty operating costs. The total annual savings will be about \$300,000.
- In a time when we are proposing that 17 permanent employees and 25 seasonal or part-time employees no longer be employed by the city, I am proposing no raises for all non-sworn employees, including myself. Funding each 1% increase in salary expense would be the equivalent of eliminating 10-12 full-time jobs. It is my judgment that our city is better served at this time by keeping as many people employed as possible.
- Our six departments other than Public Safety are reducing their operating expenses. Overall, for these six departments, the total decrease reflects a 8.9% reduction in expenses compared to the FY10 adopted budget.
- With seven exceptions, our current partner agencies, which provide important services to our citizens, are being asked to take a 7.5% reduction in funding over the FY10 funding levels – a reduction less than that incurred by our non-Public Safety departments. Since they provide food and shelter, I am recommending that the Salvation Army, the Hope Center, M.A.S.H. Services of the Bluegrass, and the Bluegrass Domestic Violence program be maintained at their FY10 funding levels. The Bluegrass Area Development District funding remains unchanged since this amount reflects a dues payment. The Downtown Development Authority requested a reduced budget, and I am proposing that we fund their request – a 3.92% decrease over the FY10 funding level. The DDA has played a vital role in our downtown resurgence, and we need to continue to support its work. We decreased Commerce Lexington's funding by 7.5% from its FY10 level, but after that decrease, I am recommending we increase Commerce Lexington's funding by \$25,000 to support the creation of a jobs incubator to help local small businesses provide more jobs in our community. After including the \$25,000 for the jobs incubator, Commerce Lexington's funding will reflect a 2.7% net decrease over its FY10 funding level.

There are four areas where I have proposed increases.

- I am increasing our real estate repair and maintenance budget by \$1.1 million so that we can pay for major unanticipated repairs or, if those repairs are not required, we can make some badly needed capital improvements in the last quarter of FY 11.

- I have increased our salt budget to coincide with some anticipated expansion of our priority streets in our snow removal plan and to avoid the recurring concern each February about whether we will have enough salt to finish out the winter.
- I recommend that we include the Lyric as a partner agency for FY11 in the amount of \$150,000 as was requested in the Lyric Theatre business plan for this year.
- I also recommend that we include the Bluegrass Community Foundation as a partner agency so that the Foundation can oversee the implementation of the findings from Destination 2040. Since 3,000 people participated in this project, we must work to see that their good efforts are not simply put on a shelf and forgotten.

Our budgeted general fund expenditures are allocated in such a fashion that Public Safety continues to receive a majority of our general fund support. As reflected on the chart, 55% of the expenses in today's budget are allocated to ensuring the safety of our community. While our community has many needs beyond those addressed by our public safety functions, in a time of limited resources I am confident that our citizens would acknowledge that these functions must be a high priority.

However, our repeated efforts since FY08 to reduce non-Public Safety expenses have resulted in significant changes to the departmental budgets in the six departments other than Public Safety. As the chart reflects, most LFUCG departments have seen substantial reductions in expenses over the last three years, and those savings have been used to insure that we maintain our public safety functions at the highest possible level. I am exceptionally proud of the job done by LFUCG employees to keep service levels high despite their declining budgets, but we should all recognize that the accumulation of budget reductions will impact the quality of service that our employees can provide.

Impact

Although the expense reductions are painful, and although some citizens will see programs they value eliminated, this budget enables LFUCG to keep moving Lexington forward, particularly in the basic service areas of public safety, job creation and the improvement of our environment.

- We will continue to fulfill our obligations under the collective bargaining agreements with our police, fire and corrections officers.
- We will continue to make significant and long overdue investments in our police and fire pension plan in order to address 35 years of accumulated unfunded liability.
- We will hire a new police recruit class and two new fire recruit classes to fill vacancies in police and fire.
- We will continue our efforts to collaborate with both the University of Kentucky and the private sector to grow jobs in our community through the continuation of the Bluegrass Business Development Partnership and through the new funding for a jobs incubator to help new, home-grown businesses get off the ground.

- We will continue to offer the Summer Youth Employment Program to provide summer employment opportunities for low income young people in our community.
- We will maintain funding for LexArts at its FY10 level because we have demonstrated that the arts are a critical component of our efforts to enhance our quality of life and to support our economic development.
- We will continue to honor all of our obligations to clean up our sanitary and storm sewers under the consent decree with the U.S. Environmental Protection Agency.
- We will substantially increase both our recycling capacity and revenue during the course of FY11. Our capacity will increase from 8 tons/hour to 23 tons/hour, our labor costs will decline, and our recycling revenues will increase from about \$1.3 million in FY10 to \$2.6 million in FY11.
- We will move to a single-stream recycling process as a result of our new equipment in our recycling facility – a change that will automate our glass handling and eliminate a substantial portion of workers' comp claims associating with handling glass.
- We will enhance our environmental education efforts with the addition of the soon to be completed Raven Run Nature Center and with the continuation of our EcoArt, Neighborhood Sustainability Grants and other educational programming in the Department of Environmental Quality.
- We will continue our commitment to the Purchase of Development Rights program by allocating \$2 million to help preserve our farmland for future generations.
- We will continue to assure the provision of primary health care services to families and their children through the University of Kentucky Clinic at the Family Care Center. As a result of our operating agreement with UK, the services have been expanded, and we will derive more than \$100,000 in lease income rather than using tax dollars to subsidize the facility – a marked turnaround from just a couple of years ago.
- We have included participation in the International City Managers' Association to provide LFUCG with tools and information to improve operating efficiencies, using best practice information from around the country.

In addition, we will move forward on multiple fronts to enhance our information systems to save tax dollars and to permit our employees to work more effectively and efficiently.

- We will implement software that will permit us to more closely track the status of personnel positions so as to improve the accuracy of our expense forecasting.
- We will maintain Code Enforcement at its current staffing levels, and we will also provide that staff with enhanced technology so that we can continue to expand our efforts to report and address Code Enforcement violations more quickly.
- We will implement software that will enable us to far more effectively manage the 88 acres of floor space that LFUCG has under roof.

- We will expand our capacity to offer citizens the option of doing business with LFUCG over the Internet so that they can access more of our services on a 24/7 basis, rather than on the traditional 8-5/five days a week basis. Our announcement last week of a new iPhone app to enable citizens to utilize LexCall around town and around the clock is just the most recent example of how we make local government more accessible and accountable to citizens in the coming months. Incidentally, we learned yesterday that this new app will be free for our constituents, and I hope that will expand its use.
- We will implement GPS-based routing software in our Division of Waste Management that should result in substantial cost savings as our routes become more efficient.

So, despite the painful aspects of reducing spending to reflect the decline in our revenues caused by the national economic trends, we will continue to move Lexington forward. As we have for the last two years, we will simply do more with less.

Conclusion

There are many challenges in our community that this budget does not address, but given the economic times in which we live, I am pleased that this Back to the Basics Budget enables LFUCG to perform those core services that are critically important to the safety and well-being of our community.

Having said that, I recognize that there are undoubtedly opportunities to improve this budget over the course of the next two months. I expect we will be offering a few late changes, especially as additional state and local economic data become available and as we refine departmental needs over the course of the next several weeks. Furthermore, the Budget Address does not begin to provide enough time to address every aspect of the budget. So members of my administration and I stand ready to assist you as you undertake your review. Finance Commissioner Linda Rumpke will have primary responsibility for working with you during the budget review process, but I anticipate that our new Budget Director, Ryan Barrow, will quickly become intimately involved in that process over the next few weeks.

I have long known that Lexingtonians are resilient, and when we work together, we can overcome significant challenges. The commitment of our citizens to refuse to let the national economy stop our momentum is inspiring. Today's budget presents both challenges and opportunities for Urban County Government during FY11, but I am confident that by working together with members of the Council, we will find the best possible ways to continue responsibly managing taxpayers' hard-earned dollars, to continue tackling the tough problems that confront our city, and to continue providing more jobs in our local economy. If we accomplish those goals in the current economic environment, we will make Lexington an even better place for both its current citizens and for generations yet to come. I look forward to working with the Council during the budget review process and throughout FY11 to make Lexington that better place we all want it to be.

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